SHAW BANKING SERIES

LOANS AND DISCOUNTS

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LOANS AND DISCOUNTS

THE SERIES: ADVERTISING AND SERVICE; ACCOUNTING AND COSTS; LOANS AND DISCOUNTS; EXECUTIVE CONTROL; BUILDINGS, EQUIPMENT AND SUPPLIES; CREDITS AND COLLECTIONS

Just inside the railing of this bank, customers have informal access to the officer who handles the loans and discounts. There is no latch or lock on the swinging gate and the depositor often can have his statement looked over and negotiate a loan without any ceremony or delay.

LOANS AND DISCOUNTS

PROVED METHODS THAT BUILD BUSINESS — TESTED TIME-SAVING SYSTEMS AND RECORDS FOR LOANS OF EVERY SORT — LENDING PROFITABLY TO FARMERS—HOW TO INCREASE EARNINGS

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WHY THE BANKER NEEDS THIS BOOK

THE constantly increasing demands of the business world on the banks have compelled bankers, whether custodians of millions or of thousands of dollars, to adopt simple and quicker methods of handling the day's work. This is especially true for the routine of loans and discounts, which is the subject of this volume.

No matter how small or how large a bank may be, whether it has departments or not, loans and discounts directly affect its income. It is important, therefore, to control loans and discounts so wisely that credits will be safeguarded and profits maintained. Tested plans that have made this possible in a number of banks are described in the chapters that follow. Other volumes of this series already published cover the subjects of creating new business and controlling the cost of handling this business once it is placed on the books of the bank. It is interesting now to turn to the handling of the loans and discounts since this represents a fixed and heavy responsibility for every bank. How to judge the value of securities offered for loans, and how also to handle thoroughly yet in the quickest possible time notes and similar instruments of whatever description, are questions of importance that have their answers in the pages of this book.

You will find described many plans that have helped to cut costs and simplify the accounting detail in the loans and discount department. You will find also some of the simplest and most effective practices for figuring the interest or the discount, for entering the loans on the bank's records, for filing the notes and other papers for safekeeping, for obtaining payments promptly at maturity, and for canceling obligations after payments are made.

The chapters cover descriptions of the routine for handling all the various types of loans, including collateral, farm, single-name paper, trade paper, ordinary commercial, real estate, automobile, warehouse, and so on, and set forth tested methods to put the work through in the most direct and effective way. While credits are touched upon incidentally in this

volume, yet the subject of credits and collections as a whole, which is of tremendous importance for all bankers, is fully covered in a separate volume of the series.

In the loan and discount department, probably more than in any other branch of the bank, the need of concise and thorough records which must be carefully classified, is paramount. In this book, therefore, you will find many suggestions and ideas for keeping and classifying the records and speeding the routine of loans and discounts, so that credits may be more easily handled, and these methods are so varied in their application that any bank, whether city or country, will find the contents of value. Special attention has been given to the subject of farm loans, because of the development of the farmer as a business man and the consequent increasing opportunities for the vast majority of the banks to profit by going after this business.

This volume was prepared by Joseph M. Regan, with the cooperation of James S. Baley, associate editor of the Standard Book Department of the A. W. Shaw Company. Without the help, however, of the banks listed on another page, as well as other bankers not mentioned, it would have been impossible to issue a book so rich in adaptable methods and information. Acknowledgment of their valuable assistance is here given.

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National Bank of Decatur, Illinois; American State Bank, Detroit; Marine National Bank, Buffalo, New York; Bank of East Aurora, New York; Union Trust Company, Rochester, New York; Union-Commerce National Bank, Cleveland; Stock Yards National Bank, South Omaha; First National Bank, Omaha; German Savings Bank, Davenport, Iowa; Bank of Eagle, Eagle, Nebraska; Nebraska National Bank, Omaha, Nebraska; and many others.

PART I

SIMPLIFYING THE ROUTINE

CHAPTER I

FINDING THE RECORDS THAT GET RESULTS QUICKEST

WHAT do you do when a customer comes into your bank and asks for $300 for 30 days just when the officer who handles his business is out? Perhaps this customer has never asked for a loan before. Will you ask him to wait, and stand the chance of giving needless offense, or will you reluctantly let him have the money? Perhaps, if you have no black and white record to indicate what decision you should make, you will feel compelled to do one or the other—an unfortunate procedure in either case.

One bank has eliminated all guesswork of this sort in making loans by keeping on file what it calls a personal record of all its depositors (Figure 1). This file of facts is maintained in addition to the financial statements required from all borrowers. Whenever the bank secures a new customer, a card is made out with the depositor's name as used on checks, entered at the top. Other information is given below. This includes the date on which the account was opened and the amount of the customer's current savings deposit or certificate of deposit, if he has one. Should he also use a slightly different signature in ordinary practice than on his legal documents or checks, this is also recorded. For a woman customer, the signature ordinarily used might include her husband's name, while that on checks might be partially her maiden name.

From time to time, any intimate facts regarding the depositor are listed on the card. For instance, an entry may read like this:

> Particularly friendly to this bank. Sterling customer. Would be good for personal loan of $500. Has done a lot to bring us other business. We want to be very liberal with her.

Or perhaps in some cases the information may be less complimentary, as:

> A hustler, but careless and reckless. Has been arrested three times for speeding. Be very careful about extending credit. Has private income of possibly $5,000.

When a customer enters the bank and applies for a personal loan, if the lending officer has the slightest doubt about passing it, he excuses himself for a moment, goes to the personal file and refers to the customer's card. He then may have a definite, or at least an indicative guide to help him decide whether to make or refuse the loan.

The file is kept under lock and key and is accessible only to the designated lending officers. In this way the information is closely held and prevented from being discussed haphazardly by employees.

This is only one of the worth-while important preliminary steps a number of enterprising banks have taken to simplify all of their records having to do with lending. Other methods requisite at the start are to be described in this chapter, for, unquestionably, every practical plan to reduce uncertainty and expense in lending, short-cuts routine.

Before proceeding, however, it may be stated that since these methods vary somewhat because of the many kinds of bank loans, later chapters will take up specifically the tested individual routine covering each class. It is apparent, of course, that some loans

Check Signature _____

Opened _____ 19____ Savings _____ C. D. _____

Name as Known _____

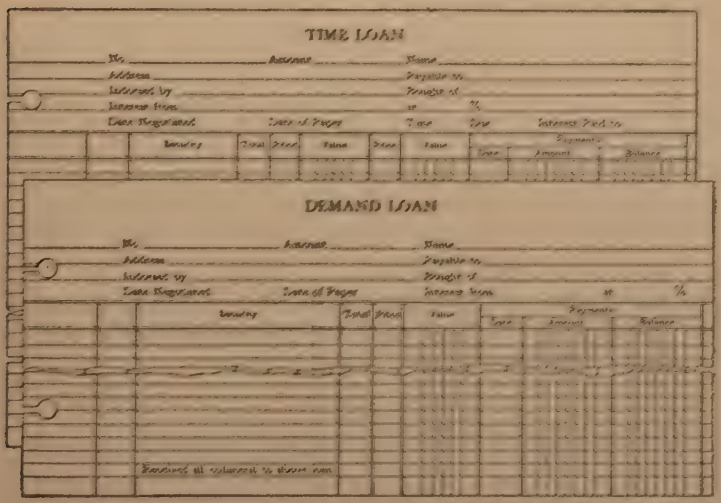
Information _____

_____

_____

_____

Figure 1: This personal record card of each depositor enables the officers of one bank to size up pretty definitely at a glance the responsibility of an applicant for a loan. It thus "oils" the lending routine.



Figures 2 and 3: A southern bank makes effective use of this looseleaf system for "time" and "demand" loans. There is a slight difference in the make-up of the forms for recording the interest payments.

are based on prime bonds, often as good as legal tender; others on real estate, city and farm; still others on warehouse receipts, and so on; while many others come under the head of ordinary commercial or collateral loans. Every point, except credits, which is taken up separately in the volume on credits and collections, is brought out chapter by chapter, from handling commercial loans effectively to making cattle loans safe and building up savings accounts as a help in widening lending activities.

THESE FORMS HAVE HELPED SEVERAL BANKS TO REDUCE THEIR PAYROLL AND TO MINIMIZE THEIR ROUTINE

Obviously, unless the detailed structure of the loan and discount routine is well organized, hitches and confusion are unavoidable in the day's work. Therefore, concise, well-arranged records, simplified at the start, have saved a number of banks a remarkable amount of time and trouble. The work has been handled at less expense and with uniform satisfaction to busy customers. And this ease of routine is possible in any bank. But it is attained by analyzing concisely what each record must do and then not only putting it into operation, but using it systematically. It is essential clearly to keep a definite and specific record of each and every transaction.

To this end, one bank has worked out a valuable loan register which is adequate for its needs (Insert I). This record takes care of all important details, showing whether the customer is the maker of a note or the indorser, and including all other facts, such as the amount, the date paid, the credit line, the total indebtedness, and the like.

A southern bank, which formerly used seven bound ledgers in recording loans and posting payments and interest, has also devised a new and quicker way of handling its routine. The plan comprises a complete

THIRD NATIONAL BANK OF ST. LOUIS

Name

	Date	Collector or Indorser	Rate	Number	Due	AS MAKER				AS INDORSER						Total Indebtedness
						Amount	Date Paid	Credit	Balance	Date	Due	Amount	Date Paid	Credit	Balance	

Insert I: There are many types and varieties of loan registers and most of them have features that recommend them to this or that banker. Therefore, it would probably be presumptuous to hold up any particular form as a model for the majority of banks. This sheet, however, has worked out practicably for a Missouri bank and shows how the liability of any customer may be recorded on the one sheet either as maker or indorser of paper or both. Thus by a glance at this one time-saving record any officer can tell both the direct and contingent liability of any customer for notes which the bank holds, together with details of his total indebtedness to the institution.

INSERT I

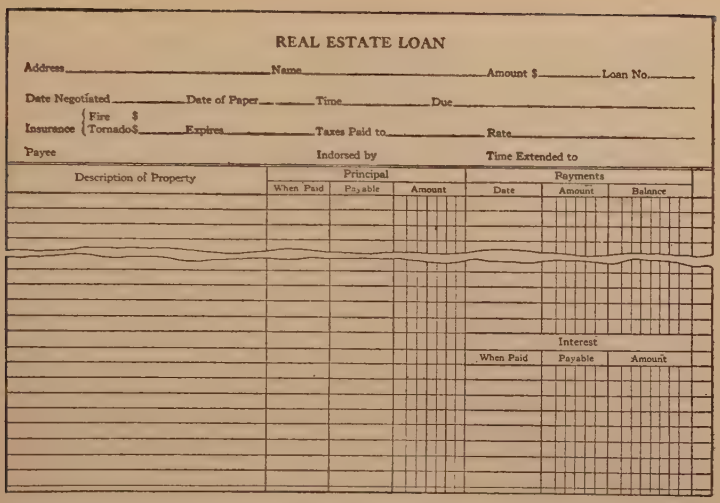
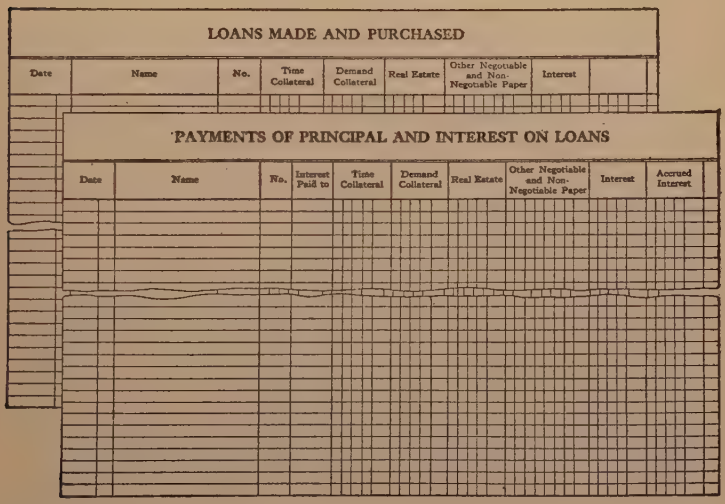


Figure 4: Another sheet from the looseleaf ledger of a southern bank is illustrated above. It takes care of the details of each real estate loan and has spaces for a description of property and for payment entries.



Figures 5 and 6: These two sheets used in conjunction with Figures 2, 3, and 4, form an important summary of all loans and of all payments, whether of interest or of principal. Notice how compact they are.

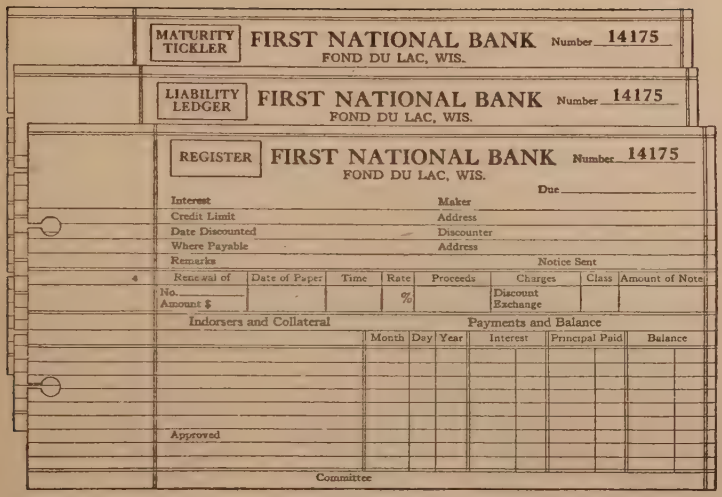
looseleaf system, which includes different colored ledger sheets of the same size made up similarly for "time," "demand," and "real estate" loans (Figures 2, 3, and 4). Two other sheets are also provided, one to furnish a complete record of "loans made and purchased" (Figure 5) and the other, of "payments of principal and interest on loans" (Figure 6).

This new compact method has reduced the labor cost one half because much routine work, formerly duplicated in such details as the daily changes, the alphabetical loan list, and the monthly accrued interest bills, has been removed from the general books.

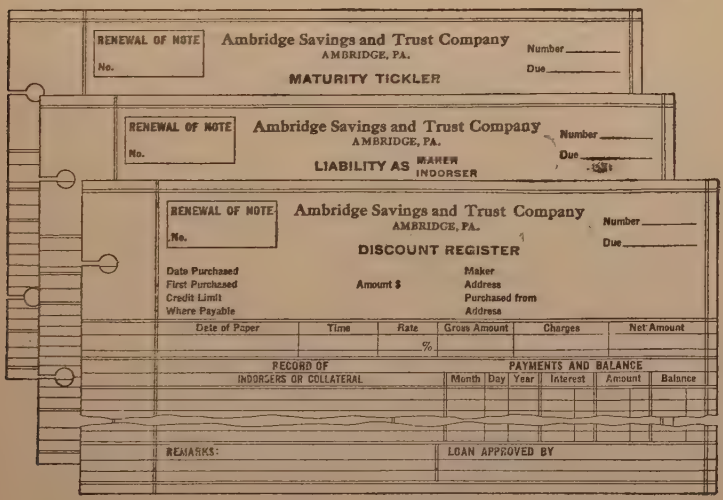
"It is a great convenience to the loan department," says an officer of this bank, "to have the complete ledger records always readily at hand, avoiding many time-wasting trips to the rear of the office to look up loan payments, and so on. Until recently all new loans, and all payments on account of principal and interest were entered on separate tickets, one for each item, sometimes the accrued interest tickets alone amounting to several hundred in one day. These had to be entered in a permanent record by the general bookkeeper, and they always arrived at a late and inconvenient time. Using totals only and making but one record has proved a great time saver."

A Wisconsin bank handles its loan routine at low labor cost by using a triplicate recording system, one sheet for the discount register (Figure 9) on which loans are listed in numerical order as made; a second copy for the liability ledger (Figure 8) on which is kept the ledger account with each borrower; and a third sheet for the maturity tickler (Figure 7) which is used to keep track of the date of each loan.

The three records are made in one writing by the use of carbons. The liability ledger is arranged alphabetically so that quick reference can be made to the facts regarding any borrower. When a loan is



Figures 7, 8, and 9: Lending routine is reduced to a simple operation by a Wisconsin bank which uses these forms. The three sheets comprising three distinct records for easy reference are filled out at one time.



Figures 10, 11, and 12: The record sheets shown here vary slightly from those shown in Figures 7, 8, and 9. They provide ample space for entering the number of any notes which may have been renewed.

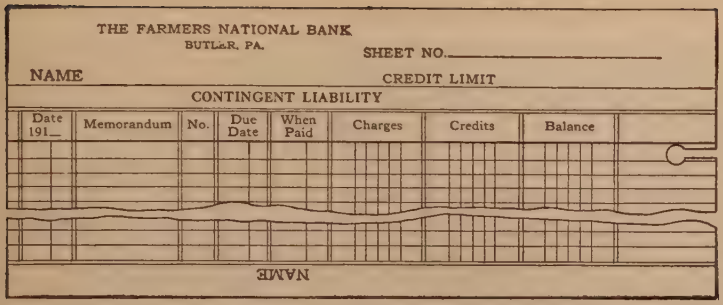
paid, the liability sheet is removed and stamped "paid." It is then filed away in another compartment used for the purpose.

The maturity tickler sheet is filed under the proper due date and thus automatically acts as a guide to following up each loan for prompt payment. The sheets for loans paid on any date act as credit slips for the teller and the total of these tickler copies show each day the amount to be charged to general cash. The tickler file readily brings to prompt attention any loans past due.

A variation of these sheets is shown in Figures 10, 11, and 12. The general principle of their operation is the same. Should a borrower's account become sufficiently active, a sheet such as the contingent liability form (Figure 13) is used to record the individual loans, and the separate sheets are destroyed. To make the work even more simple all sheets are of a different color.

Simple application forms are a help in banks where the clerical force is limited. The concise one used by a western bank and reproduced in Figure 14 has proved of value. All of these important records are necessary in a well-organized bank. Especially is this true in handling collateral loans. Often the collateral is filed, and no easily accessible and complete record is kept of each application and its disposition. As a result, misunderstandings may occur and no adequate records may be available for reference. Guesswork, obviously, is hazardous in a bank. It may lead to losses and dissatisfied customers—points which are taken up more fully in the volume on internal management. But, first of all, simplicity of records is desirable.

For example, one bank in the South formerly kept separately a loan and discount register, a note tickler, and a liability ledger. About 10 days before the



THE FARMERS NATIONAL BANK
BUTLER, PA.

SHEET NO._____

NAME

CREDIT LIMIT

CONTINGENT LIABILITY

Date 191_	Memorandum	No.	Due Date	When Paid	Charges	Credits	Balance

NAME

Figure 13: In order to assemble each customer's record of contingent liability on one sheet, a Pennsylvania banker uses this convenient form.

APPLICATION FOR LOAN

Raton, N. M., _____ 191____

C. N. BLACKWELL President,
First National Bank,
Raton, New Mexico.

DEAR SIR:

I hereby make application for a loan in the sum of $_____

for a term of _____ days, months, and to secure the same I offer the following:

Names _____

_____

_____

Or Mortgages on Real Estate _____

_____

_____

Or Mortgage on Chattels _____

_____

_____

If the loan is approved by your Discount Committee I will at once, upon receipt of notice of its approval, execute the proper papers covering the collateral above mentioned.

Yours very truly,

_____

Approved

191

_____

_____

_____

DIRECTORS

Figure 14: Loan applications to be effective must be as simple as possible. This form adopted by a New Mexico bank is concise and yet complete. It has proved satisfactory to both lender and borrower.

notes matured it was necessary to write up the due notices from the tickler. This meant that, for every loan, three permanent records and three separate entries had to be made, besides writing up the due notices. An enormous saving in time and stationery cost was made by adopting a system of five records all made at one operation. As a result, the work is done with one less clerk and more satisfactorily than before. The bank has a capital of $100,000 and deposits of $400,000, and every item of saving counts.

The newer "one-operation" system is simple and concise. All of the five records are made at one time on a typewriter. The entries stand out clearly, and automatically lessen considerably the chances of making mistakes and annoying errors. (See Insert II.)

HOW A NUMERICAL REGISTER SAVES TIME IN A SOUTHERN BANK, WHILE FULFILLING SEVERAL OTHER PURPOSES

The first sheet is the register of notes due. It is divided into five equal portions for the entry of five notes. The top of every sheet is always started with a number ending with 1 or 6, and the last number on every sheet ends with 5 or 0. Perforation is made on the top only and the side is punched for binder posts. On account of the numerical arrangement of the sheets consecutively, the absence of one or more of them would be immediately detected; therefore as may easily be seen, this method provides a greater protection against error than the old method of pen-and-ink entries in a bound book.

The register sheets are placed in a binder and form a book, in the regular numerical order, just as though you had them typewritten into a bound book. They may afterward be transferred to an auxiliary binder and used for reference purposes.

The sheet which comes next is the maturity notice. It is sent to the maker, giving all the necessary details

—the due date, the name of the indorser or the description of the collateral, the amount, and the discount. It further shows the last day the note can be attended to without being protested; indicates that a new note cannot be altered nor can any change be made if it is to be renewed; and that a certified check is required in payment of the obigation if it is drawn on some other bank.

There are two facts that it does not show, namely, the net proceeds and the date the note was discounted. This information is withheld for the following reason: It frequently happens that a note is not run through the bank on the date presented, as the note may be late for the day's work, and, of course, not be run through until the next day. Consequently the dark square portion of the notice blocks this out. This omission is immaterial to the maker as it does not change the due date. But if the due date were the fifteenth and the date of discount were the sixteenth, the maker might think that a mistake had been made and that another day ought to be added to the time fixed for payment.

The maturity notice is filed according to the due date and at the proper time is taken from the file and checked with the note, after which it is sent out. This operation verifies the facts of the obligation.

The sheet which comes third is the tickler. This is also filed according to the due date. Thus under the proper date there must always be a tickler to correspond with every note, and vice versa, which acts as a check-up on the filing. In fact, the note, the maturity notice, and the tickler would have to be incorrectly filed before any transaction could be overlooked.

On the due date, after each note has been checked with the tickler, the notes and the tickler cards are conveniently placed near the note teller's wicket. As each note receives attention, the proper entry is made

on the tickler, at which time it becomes a work ticket. For illustration: When Hayes pays his note for $200 on the due date, the teller merely enters under the blotter heading, "credit loans," the amount paid, $200. If the note is renewed for $100, that amount is entered under "credit loans," and the amount of discount under "credit discount." Where it is necessary, the word "interest" is substituted for "discount."

THESE SIMPLE SYSTEMS ELIMINATE "RED TAPE" AS WELL AS HELP TO PROTECT THE BANK'S INVESTMENTS

At all times during the day the teller, therefore, has a double check on the notes on his desk. If a messenger should remove some of them, none can be overlooked because all the tickler cards are retained. In a bound-book tickler two notes may be hurriedly checked instead of one, but with this system, the tickler has to leave the teller's possession and go through the regular routine in order to receive attention. At the close of the day's business the unpaid notes remain with the teller who also has the remaining tickler papers as a further check on the day's work.

The sheet which comes next is for the bank's record of the indorser if any, and the last copy (the top one) is for a record of the maker. These cards are filled alphabetically, the one for the indorser under his name and the one for the maker under his name. This automatically brings each individual's liability, either as maker or as indorser, into one place in each file; so that the total liability can be seen at a glance.

When a prior payment is made on a time loan, or at an interest period on a demand note, a pencil is drawn through the original amount and the new amount is written on both the "indorser" and the "maker" slips in the spaces provided at the lower right-hand side.

In keeping the liability file it has been found advisable, after the tickler has been put through the work,

AVERAGE BALANCE

Yearly Averages				1917			1918			1919		
Year	Amount		Month	Average		Items	Average		Items	Average		Items
			Jan.									
			Feb.									
1912			Mar.									
1913			Apr.									
1914			May									
1915			June									
1916			July									
1917			Aug.									
1918			Sept.									
1919			Oct.									
			Nov.									
			Dec.									
			Year									

Figure 15: This card indicates the ease with which one bank keeps track of the average balance of each customer. When the borrower makes a request for a loan this deposit record helps the lending officer.

Date	Balance	Loan	Balance	Loan	Balance	Loan	Balance	Loan	Answered inquiry of Date	Name
Jan.										
Feb.										
Mar.										
Apr.										
May										
June										
July										
Aug.										
Sept.										
Oct.										
Nov.										
Dec.										
Average										

ASSETS		LIABILITIES	
Cash on hand		Capital stock	
Cash in bank		Surplus and undivided profits	
Bills receivable, good, due from customers		Bills payable for merchandise	
Accounts receivable, good due from customers		Bills payable to own banks	
Accounts receivable due from partners		Bills payable for paper sold	
Merchandise, actual present cash value		Open accounts	
Bills receivable due from partners		Deposits of money with us	
Real estate property of firm		Mortgages or liens on real estate	
Machinery and fixtures		Due wife or relatives in any form	
Other assets		Other liabilities	
TOTAL		TOTAL	
		Total quick assets	
Sales		Excess Liabilities / Quick assets	

Figure 16: All necessary information concerning borrowers can be condensed on both sides of a card like this. The heavier type showing quick assets and excess liabilities is printed in red in the original form.

to remove the "indorser" and "maker" records for matured paper. These matured liability slips are transferred to a reference file, alphabetically arranged. The active file is then necessarily accurate, up to the minute, and free from all matured liability; while the inactive file is a complete and ready record of all former transactions. It is obvious that, with a record which can be so readily consulted, much time and effort are saved as compared with the old method of searching through bound books with no other clew than the approximate date of the notes.

With this system all records are in balance with the register. Thus one proof only, that of the register, is required to assure the complete accuracy of all the work. And all the errors, which are mainly due to copying, are eliminated.

If the cashier of the bank, for instance, receives any new information about Hayes, he simply goes to Hayes' name in the liability ledger and finds exactly how this customer stands with the bank. He knows accurately whether the loans to Hayes are protected with sufficient collateral or indorsement and when they will be due. There is no guesswork about it.

Even though each slip is small, it is adequate for all practical purposes; for if there be a large list of collateral for any loan, the clerk making out the records simply writes in the space for indorsement or collateral the words "listed over." Then after the forms are run through the machine, they are reversed and the collateral is listed on the back.

When there is more than one indorser and a record is desired for each, a separate sheet is used and carbons inserted between as many sheets as desired under the space for indorsement on the liability ledger sheet. The whole arrangement makes for simplicity, accuracy and time saving. It is only one of the ways banks have employed to short-cut work.

SUMMARY OF TRANSACTIONS OF LOAN AND DISCOUNT DEPARTMENT

April 23 to 29, 1918.

Mr Cook
From Mr. Gordon

COLLATERAL NOTES

Coll Notes Due April 23 to April 29,	$67,387.76	Paid $12,955.93	20%
Past Due Notes and Notes Paid in Advance	23,042.76	" 17,963.71	78%
Total	$90,430.52	$30,919.64	34%

DOMESTIC AND FOREIGN NOTES

Straight Notes Due April 23 to 29	$11,138.30	" $7,147.89	64%
" " Past Due and Notes Paid in Advance	65,833.55	65,833.55	100%
Total	$77,071.85	$72,981.44	94%

In this total is included $60,000 Commercial paper returned and $8,323.56 Cattle paper paid

LORD NOTES

Lord Notes due April 23 to 29	$2,890.57	Paid $1,642 53	57%
" " due, past due and paid advance April 23 to 29	1,451.02	" 1,451.02	100%
Total	$4,341.59	$ 3,093.55	71%

Total Lord Notes Charged Back April 23 to April 29,	$1,117.47	Lane-Beecher	$ 50.00
		McArthur	105.00
		Northwestern	202.50
		Walker	175.00
		Borden	120.00
		Queen Motor	84.97
		Max Hayes	100.00
		National	40.00
		McCarthy	50.00
		Scott-Feerer	90.00

Total Payments $107,144.92	On Us	$9,175.55	8%
	Cash and Checks on Other Banks	97,969.37	92%

Figure 17: The officers of a middle western bank have found this method valuable for summarizing the transactions of the loan and discount department. It provides a clear record of each class of paper.

The Market and Fulton National Bank,
OF NEW YORK.

CREDIT

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Figure 18: The lending officers of one bank use this simple ticket to put through credits on borrowers' accounts for loans passed on favorably.

Still another bank has simplified its record of the average balance for each customer so that any lending officer can tell at a glance just how satisfactory the deposits have been (Figure 15). For instance, if he desires to get quickly a general survey of the account covering a period of several years, he looks at the first column on the card for the information. If he desires more detailed figures by months, he finds them in the succeeding columns. The conciseness of this record—all data being placed on a 3 by 5-inch card—is striking. In contrast, many records of this sort are large and cumbersome. Think of the time saved in the routine of a busy bank by having even one of these records made up in the convenient style shown.

Similarly, in the same bank is a file of all borrowers' financial statements, each condensed on a card 3½ by 9 inches in size. This card (Figure 16) is printed in two colors, the quick assets being shown in red in the first column. Under liabilities, the excess liabilities, if any, are also in red. Columns are provided to show figures for four years. For general reference or information this card is unusually easy to handle and provides a compact method for referring to the status of any customer's business.

On the reverse side of this card, space is provided as shown for entering the deposit balance for each month of a four-year period and the amount of any loan for any month. At the bottom the averages are shown. At the right are spaces for entering the name of any inquirer about this customer, the information being kept for reference and record. It is readily apparent that such simplified records faithfully kept are well worth while in handling loans.

Another convenient record of a middle western bank is the weekly summary of the transactions in the loan and discount department. The percentage of notes paid when due, the percentage of past due notes paid

and the total amounts, and the like, are indicated as shown in Figure 17. This record has been found remarkably valuable in checking the liquidity of the paper held by the bank. It shows the officers just how the loan department stands and indicates any danger signals in the liquid character of the notes held.

Lending officers use various forms to put through tickets crediting borrowers' accounts for loans granted. It is important to cover this step well as a check between departments. A simple form found during the investigation for this series is shown in Figure 18. Of course, other forms of this sort may be just as suitable for the routine of some banks, but the one shown may suggest the simplicity possible in many of these important records.

The main point to consider, after all, is how to exclude "red tape" from all bank records, and still thoroughly take care of all items. This chapter points out ways to curtail the time, the labor, and the expense of keeping the loan and discount records of a bank, and suggests the important tested methods, to be considered specifically in following chapters, for handling the various classes of loans.

CHAPTER II

HOW A DISCOUNT COMMITTEE BUILDS BUSINESS

A SOUTHERN bank has a discount committee of three members. They do not meet together oftener than once a week. Yet they attend daily to all the business referred to them. Customers do not have to wait.

This is how the committee does it: A daily schedule has been arranged calling for each member to visit the bank twice a week. Instead of all meeting together, questions of policy have been worked out so that one committeeman shares with the lending officers the responsibility of passing on loans and discounts each day.

In other words, it has been found practicable to have the lending officers attach their recommendations or suggestions to any paper on which there is the slightest question and to place this business before the member of the committee who happens to be in charge on that particular day. His judgment, added to that of the lending officer, is considered sufficient. The bank keeps a list of all loans granted or refused each day, and when the three committeemen meet twice a month or oftener, these are read off. At this full meeting any suggestions are made as to the future consideration of loans which have already been made and are about to mature.

The bank has found this plan to have a number of advantages. In the first place, instead of requiring the time of three directors each day for half an hour

or perhaps more, only one man is asked to report. This means that he is free from these duties four days a week—a considerable item in time for a busy man. Furthermore, the plan makes each committeeman alert to conserve the interests of the bank and yet retain its customers. It also urges him to make a showing equal to that of his two colleagues.

On the other hand, the fact that a committeeman is on duty each day to go over all items means that effective service is rendered to all customers because each is informed promptly regarding his application. Probably what irritates an applicant more than anything else is not necessarily a turndown, but a delayed decision on a turndown. If a business man or individual has to wait a week to have his application passed on and then is refused the loan, his position becomes, perhaps, decidedly embarrassing.

Here is one duty, or public service, if it may be so called, which discount committees owe their banks' clients. No more is it fair for a committee to keep an applicant waiting in a state of uncertainty than it is for a supplier to fail to ship a valuable order of goods on time.

So this committee builds business while still giving a minimum amount of time to the work. The illustration indicates the importance of the discount committee, what its duties are, and how it may simplify and yet adequately fulfil them.

A Chicago bank has a somewhat similar plan which has proved entirely satisfactory. There are 12 directors and each serves on a committee of three twice a year. This means that the personnel of the committee changes every two months, so that every director keeps in close personal touch with the loan activities of the bank.

There is no opportunity to leave the responsibilities of the committee "up to the other fellow."

At a meeting of the Board of Directors of the

_____ Bank of

_____ held at their Banking

House, this _____ day of _____ 191____

the following RESOLUTION was adopted:

Resolved, That the President, Vice-President, Cashier, and Assistant Cashier of this Bank, or either of them, be, and are hereby authorized, to execute the note or notes of this Bank to the extent of _____

_____ Dollars, pledging securities or business paper for collateral, or furnishing individual names as indorsers, to the Third National Bank of St. Louis, for the purpose of obtaining a loan for account of, and use of this Bank; or to use the Bills Receivable of this Bank for discount, rendering the same negotiable by indorsement. This authority to be in force until revoked in writing, and

FURTHER RESOLVED, That any loans heretofore made to, or paper rediscounted for this Bank by the said Third National Bank of St. Louis, be and the same hereby are approved and ratified.

I hereby certify that the above is a true extract from the minutes of said meeting.

SEAL

_____

Cashier and Secretary of Board of Directors.

Figure 19: The boards of directors of some banks have printed sheets to enter the minutes of discount committee meetings. One bank finds this form convenient to set forth its discount policy; it does away with all possible misunderstandings and furnishes a record of authority.

This "rotating" committee meets once a week and, to compensate the directors somewhat for the time involved, each one receives $5 every time the committee convenes. At these meetings the three directors on duty go over all loans made during the week and pass on applications which for any reason have been held up by the lending officers. They pay particular attention to real estate loans in order to guard against tying up money too long in slow or questionable assets. Often they themselves go to inspect the property and to check up its value and general condition carefully. While this takes some time, occasionally, the directors feel that it is the only way to conduct a banking business safely. In fact, they realize that it may save a considerable amount of time, trouble, and possible losses later on.

AN INSTANCE WHERE FORESIGHT WAS INSTRUMENTAL IN GAINING A VALUABLE ACCOUNT

Maturing loans also come before the committee for recommendation. Perhaps a loan has run too long. Definite instructions from the committee to have it taken up back the lending officers in their efforts to keep the records free from old paper. On the other hand, a customer who needs the cooperation of the bank may have paper coming due that ought, under the circumstances, to be renewed. The committee, according to its wide experience, carefully decides to allow the note to be renewed.

"Our plan has raised the standards of our loan department considerably," says the cashier of this bank, "and we know that our charge-offs have been reduced to the lowest possible figure."

Whatever the method of conducting the meetings of discount committees, it is important that offerings be presented in the most convenient form so that the needs of customers may be analyzed quickly.

Therefore, forms like those mentioned in Chapter III are particularly desirable.

What are the duties of the discount committee? Primarily, of course, to pass on credits, a subject which is more fully considered in the volume on credits and collections. However, the actual credit of all applicants is carefully tabbed and set forth by the credit department, and it remains for the discount committee to settle any problem beyond the province of the lending officers. But the duties of the committee extend beyond the passing on applications. They include:

1. Passing on all paper promptly
2. Sizing up applications from the standpoint of building a larger business
3. Coaching the bank's officers on how to supply a service of greater breadth to all customers
4. Detecting dangerous developments in the business of any client
5. Keeping accurate, complete, and systematic records of all meetings
6. Planning ahead for the future line-up of loans and discounts—thus keeping the proper balance in the bank's "working capital"
7. Reporting to the board of directors, when necessary, any developments of unusual importance in the money market or in connection with the paper submitted for approval
8. Rediscounting other banks' paper on authority from the board of directors.

The importance of passing paper promptly has already been emphasized, so let us consider what the discount committee sometimes accomplishes by being alert to the needs of applicants and by sizing up their possibilities for building a greater business. One instance will illustrate what this may mean. At the outbreak of the world war three young men saw the

opportunity for putting through large foreign contracts and for developing a profitable export business in neutral countries. They secured an attractive line of contracts and took these signed papers to the bank for the purpose of borrowing to finance themselves.

These men had not been big customers of this bank, nor had they established a line of credit through years of business success. It would have been easy for a discount committee to have turned down this application, but its members saw farther ahead and made the loan. These men now have an enormous business running into millions, and the bank, of course, has profited largely. Experience has shown that for the discount committee of a bank to pass on loans in a perfunctory way is almost certain to mean overlooking opportunities for extending its business.

HOW THE DISCOUNT COMMITTEE COOPERATES WITH THE OFFICERS TO BUILD BUSINESS

The discount committee has frequent opportunity, also, to coach the officers by giving them examples of the best way of handling applications to render valuable service to customers.

"By going over important problems with the officers, we help them in their vision," says one bank director. "When we find officers, in their daily tasks, showing a tendency to narrow down in their attitude toward customers who make unreasonable demands in borrowing, we try to show them how they can serve our clients effectively and conservatively without losing business.

"Each officer is instructed to make every customer understand our attitude toward an application for a loan and to reason out every point for him, whether our decision is favorable or unfavorable. We instil into our lending officers the idea that they must know absolutely why they say 'no,' or why they say 'yes'

November 21, 1917

FINANCIAL DEPARTMENT

Assistant Secretary Barnes writes:

Lieutenant F L Barnidge c/a who has an allotment of $211.00 sent to us for his credit each month, said he was ordered out of the city today and wanted to overdraw his account $23.00 until end of month when his allotment would be received, the overdraft was therefore authorized.

SECRETARY'S OFFICE

(Date) November 20, 1917 Total gross deposits		$21,533,865.54
Total cash on hand and in depositaries		$ 3,919,141.13
Less		
Reciprocal Bank Balances	$ 347,000	
Secretary's checks, and so forth	285,000	$ 632,000.00
Net Cash		3,287,141.13
Reserve in Federal Reserve Bank of Alton		$ 1,494,016.11
Reserve required by Federal Reserve Act		1,466,192.00
Excess		$ 27,824 11

Washington Clearing House -- November 21, 1917 (Date)

Credits	$ 575,040.39
Debits	741,525.54
Balance - Debit	$ 166,485.15

VICE-PRESIDENT'S OFFICE

Vice-President and Farm Loan Officer Fitch writes:

The position in the Farm Loan Department recently made vacant by the Resignation of Mrs May C Moore is now being filled by Miss Katherine Petzoldt of Brownsville, Pa. Miss Petzoldt was introduced to the Department by Dr. R. J O'Reilly and Mr. Keebaugh of the Trust Department.

SECRETARY'S OFFICE

The Secretary writes:

Applications, loans, as follows, granted:

(1) Bank of Harrisonville Texas $5,000, forty days, being renewal its note due 26th inst., and part of $15,000, on its various customers' notes aggregating $28,437.27;

(2) Brockmeyer Brothers, $300, sixty days

Loans, as follows, approved:

(1) Francis Bro. & Co., $100,000, fifteen days, on collateral in our possession, market value $123,600. - For other indebtedness in this connection, see minute 14th inst..

(2) J. Sheppard Smith, $4,900, on call, on $5,000, United States Government Second "Liberty Loan" 4s - Mr. Smith also owes $8,000, on call, on his note, $8,000, due Jan. 2, 1920, secured by first deed of trust on 4334 Westminster Place, appraised at $13,000

(3) Friedman-D'Oench Bond Co., $31,500, on call, on $35,000, Grant County, Ind., Road District #1-6s. - For other indebtedness in this connection, see minute 19th inst.;

(4) (Mrs.) Louise Brinker, $100, making $200, due Mar. 5, 1918, on our certificate of deposit, $390.19, due said date;

(5) Geo. F. Laage, $200, making $5,750, on call, on notes, Laage Real Estate & Investment Co. aggregating $8,250, secured by first deeds of trust on (a) 150' in Forsyth Place, appraised at $7,500, and (b) 3836 Westminster Place, appraised at $4,500.

(6) (Miss) Anna L. Rudolph, $50, payable on or before thirty days, taking up her note, $150, due today, on same collateral;

(7) Wm. Donworth Brownsville, Pa. $50, three months, note indorsed by W. T. Mars.

Figure 20: Here are two pages of a bank secretary's periodical report of general conditions to inform the discount committee of the trend of loans and deposits. It visualizes so thoroughly the financial progress of borrowers that the loan committee can easily curtail loans or increase

Execution, as surety, appeal bonds, $20,000. Charles L. Martin unto Bertha Kuhlman, in matter judgment, $10,000, rendered in Merton Circuit Court, County of Lewistown, Pa. for personal injuries in an automobile accident, this Trust Company to be indemnified by assignment of $15,000, preferred stock, Crunden-Martin Mfg. Co. and by usual indemnifying agreement, authorized.

As holder and owner of $2,000, par value, Miller-Washington Timber Co. 1st 6s (carried on our books at $100), consent to plan of reorganization, as outlined in report, Sept. 25, 1917, of Bondholders' Protective Committee, under agreement of June 12, 1913, and subscription for our pro rata share of the new corporation's notes and common stock, approved

COUNSEL'S OFFICE

The Assistant Counsel writes:

In reply to our telegram inquiring when to expect forms and regulations under the Trading with the Enemy Act, Lionberger Davis today wired us as follows: "Regulations and forms will be ready in 3 or 4 days. Do nothing until they reach you."

CURRENT ACCOUNTS OPENED
11/21/17

Mrs. Martie B. White, 12 Highland Terrace, Richmond Heights, Iden. by J. A. Weaver	$ 105.50
Keppeler, Geo. C., Watertown, Ill. Iden. by E. J. Kropp, reopened	270.00
J. W. Beall, Hayes, Ill. Iden. by Vice-President Herb	500.00
Just Right Products Corp. of Texas. Iden. by J. C. Collins	1,541.49
Howie, George E., 3833 Shaw Ave. Iden. by Lane Ave. Epworth League, reop.	15.00

CURRENT ACCOUNTS CLOSED
11/21/17

Sister M. Bernadette, 2727 N. Kingshighway. Iden. by Rev. F. H. Bradley. a/b $50.00	$ 8.81
Sarah B. Mahan, Special a/c, 5219 Cabanne Ave. Iden. by her c/a. a/b $80.00	13.50

SAFE DEPOSIT DEPARTMENT
11/20/17

SAFES RENTED.

Mrs. Fannie A. Pollard, 5037 Page Ave. Former renter	$ 5.00

SAFES SURRENDERED.

St. Luke's Hospital Ass'n. c/o Wm. Merritt, Treasurer, c/o Mercantile Trust Co. Going to Mercantile Trust Co. Location more convenient	$ 10.00
Vance B. Bryan, Mrs. J. E. Matlack, 6619 Elsner Ave. No further use	5.00
Geo. L. Dyer, 705 La Salle Bldg. No further use	5.00
The William King Inv. Co., c/o Wm. King, 3324 Locust St. No further use	5.00
J. H. Rohde, Mrs. Mary Rohde, 825 N. 4th St. No further use.	5.00

STORAGE DELIVERED.

Mrs. Vivia Clyde Bevis	$ 3.00
" " " "	3.00
" " " "	1.50
" " " "	3.00
Mrs. Henry Mizner	3.00

11/21/17

SAFES RENTED.

Western Consolidated Lead Co., Rialto Bldg. Have another box here	$ 20.00
Geo. A. Kurz, 2928 University St. Has c/a	5.00

STORAGE DELIVERED.

Mrs. Mary B. McCorkell	$ 2.50

approvals according to conditions. All facts are stated simply and definitely; and there is no need for a long, troublesome analysis. The plan will help almost any bank. It keeps the discount committee well informed and suggests a concrete way for assembling information.

in regard to all loans, and that they must be frank in answering the customer, who is to be helped in his understanding of the situation, rather than sent away still wondering."

It is necessary to keep accurate records of all discount committee meetings, not only for the information of the directors, but in compliance with the law and to safeguard the bank's activities. In progressive banks any instructions from the board of directors are also given in writing and, in some, printed sheets are used for entering important items. For instance, as indicated in Figure 19, one bank has a special record to cover instructions regarding rediscounts to another bank.

The discount committee in some banks also checks over the reports of officers. A typical report of this kind (Figure 20) is reproduced on pages 24 and 25. It enables the committee to watch its balances and to curtail or increase its approvals on loans.

Evidently too much attention cannot be given to the duties of the discount committee of a progressive bank. If conducted properly, these meetings are profitable in guiding the bank to greater and safer profits. The main point is to keep in touch daily with conditions, and thus minimize charge-offs and afford prompt service to customers. Not only that, but the officers are then backed up properly and, as one banker comments, "greater team work for business building invariably results."

CHAPTER III

MAKING THE DISCOUNTING ROUTINE EASY TO HANDLE

THE charge-offs on account of bad loans and discounts in a southern Illinois bank averaged only 0.003 of 1% annually over a period of six years. One reason for this remarkably small loss was a systematic handling of loans by the discount committee.

In many banks the work of the discount and loan committee is still largely perfunctory—at least it merely meets periodically to approve loans which have been made, rather than to pass on them ahead of time. Many bank directors, of course, say that they are paying their officers ample salaries to pass on loans just as a manufacturer or merchant pays his credit man to pass on customer risks. However, they overlook, perhaps, the trite fact that a decision made by three men jointly may often be wiser than that made by one alone. It is true that for the great majority of loans the lending officers should be able to make decisions correctly, but there are always the outstanding exceptions which should have the combined judgment of the members of the discount committee.

In the bank cited above the discount committee is a definite, active part of the daily routine of lending. The officers, of course, take care of all ordinary notes. The discount committee, however, passes on every item on which there could be a possible question. It meets every morning at 9 o'clock and takes up all problems on loans and discounts. This obviates one of the

The Market and Fulton National Bank

OF NEW YORK.

Offered for discount by

_____

Amounting

_____ Items _____ to _____ $_____

Figure 21: An eastern bank uses this small form to record each customer's discount offerings. It is concise, yet it has all the necessary data.

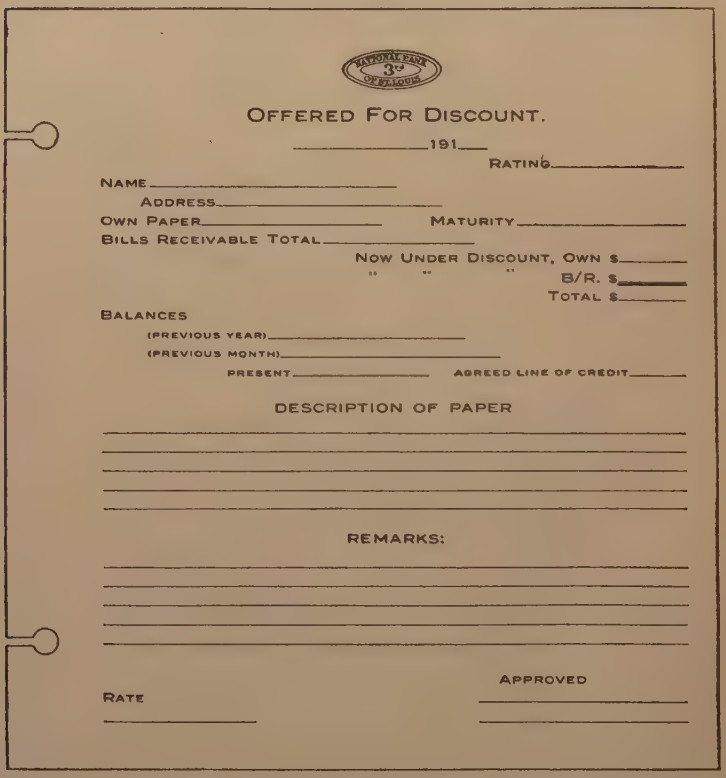


Figure 22: Here is a concise report sheet for the discount committee. It not only records all information regarding the paper attached to it but also gives the amount the customer already has under discount.

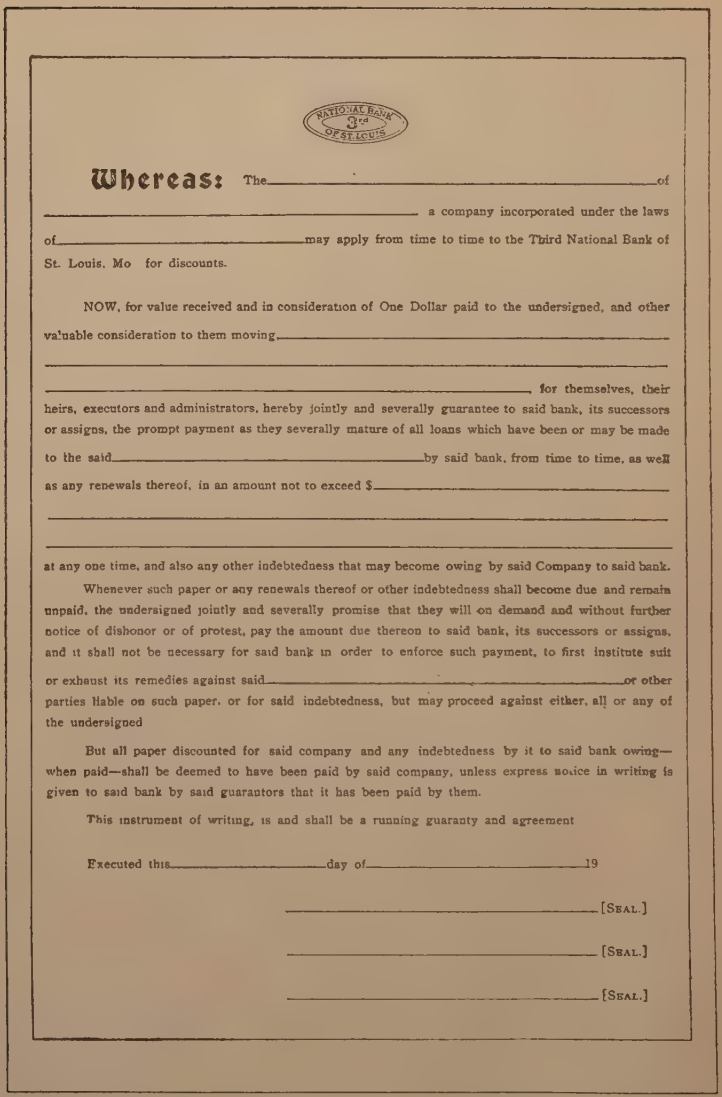
difficulties many banks have in failing to get action promptly on the applications referred to these officials.

For instance, a customer may wish to have a decision on his application the following day. The committee may not meet until the following week—some get together not oftener than every two weeks—so that there may be an awkward delay and sometimes the loss of really profitable business. Every item of this sort comes to the committee in the Illinois bank every morning. Therefore no unnecessary delays vex the applicants, and if turndowns are necessary, they come before the customers are nettled by having to wait needlessly in uncertainty.

To make it fair to the committee to meet so often, a nominal salary of $25 monthly is paid to each of the three members. Many committees receive no compensation for their work except as any member happens to be a regular paid officer. This bank has found it both practicable and highly desirable to pay a salary to the committee. It has found the reduction of losses to be far greater than measurable in the salary expenditure of $75 a month. The small amount of charge-offs tells the story of added effectiveness.

This is just one way to perfect and to strengthen the discounting routine in progressive banks. Proved ideas that have worked out satisfactorily in one bank can often be adapted to other banks. So this chapter will set forth some of the most interesting routine plans found effective in the numerous banks investigated.

Of course the discount department is interested fundamentally in the offerings presented, and while these usually are first passed on by the lending officers or the discount committee, it may be well here to touch briefly on this phase of the work. One bank uses a small, simple form (Figure 21) for recording the offerings submitted by a customer, and attaches this to the items. The members of the discount committee in this



THIRD NATIONAL BANK OF ST. LOUIS

Whereas: The_____of

_____ a company incorporated under the laws

of_____may apply from time to time to the Third National Bank of St. Louis, Mo for discounts.

NOW, for value received and in consideration of One Dollar paid to the undersigned, and other valuable consideration to them moving_____

_____

_____, for themselves, their heirs, executors and administrators, hereby jointly and severally guarantee to said bank, its successors or assigns, the prompt payment as they severally mature of all loans which have been or may be made to the said_____by said bank, from time to time, as well as any renewals thereof, in an amount not to exceed $_____

_____

_____

at any one time, and also any other indebtedness that may become owing by said Company to said bank.

Whenever such paper or any renewals thereof or other indebtedness shall become due and remain unpaid, the undersigned jointly and severally promise that they will on demand and without further notice of dishonor or of protest, pay the amount due thereon to said bank, its successors or assigns, and it shall not be necessary for said bank in order to enforce such payment, to first institute suit or exhaust its remedies against said_____or other parties liable on such paper, or for said indebtedness, but may proceed against either, all or any of the undersigned

But all paper discounted for said company and any indebtedness by it to said bank owing—when paid—shall be deemed to have been paid by said company, unless express notice in writing is given to said bank by said guarantors that it has been paid by them.

This instrument of writing, is and shall be a running guaranty and agreement

Executed this_____day of_____19

_____[SEAL.]

_____[SEAL.]

_____[SEAL.]

Figure 23: A written agreement like the one illustrated makes plain to each borrower a bank's discount policy regarding lines of credit. Notice how the form protects the bank and covers essential details so that both the customer and the banker will understand the obligation.

way can immediately inform themselves of the principal details of the offering: the name of the customer, the number of items for discount, and the amount.

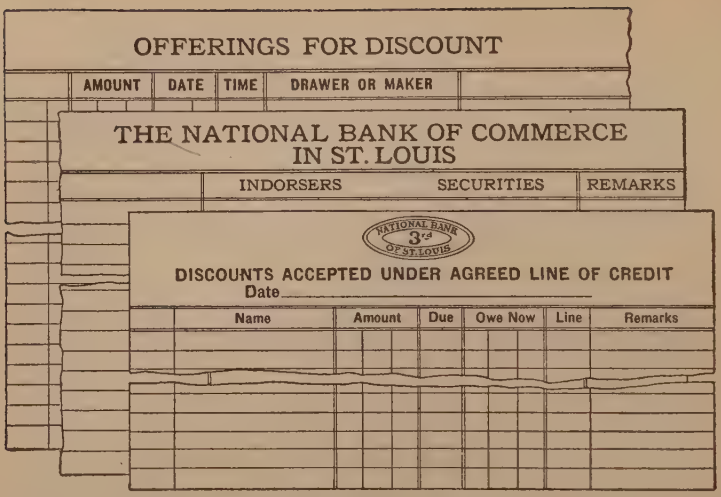
A western bank needing a more complete record makes use of the larger form shown in Figure 22. Here on one sheet are presented the basic facts a bank needs to know about paper for discount: the customer's name, his rating, whether his own notes or bills receivable are offered, how much of his paper, if any, is now being held, and whether it is his own or bills receivable, his deposit balances, his line of credit, a description of his offerings, and the rate of discount. At the bottom of the sheet are spaces for two officers to enter their approval if the transaction is put through. To make the routine as easy as possible, one color of the form is used for new loans while another color is used for renewals. The sheets really act as an acceptance slip from the discount committee.

THESE FORMS LESSEN ERRORS AND FACILITATE IN MANY WAYS THE DISCOUNT TELLER'S DUTIES

Some banks have a definite written agreement with their customers regarding discounts. This, in many instances, prevents annoying misunderstandings, and these banks have found it to be a valuable protection. One bank employs for this purpose the form (Figure 23) reproduced on page 30. A similar one is used to cover paper discount at other banks. A record of this sort, it is evident, guarantees definiteness all the way through the business transaction.

Paper presented to the discount department of a middle western bank is listed on a special sheet called "Offerings for Discount" (Figure 24). This form is simple and self-explanatory and makes a time-saving record of all offerings.

After the bank has received and passed favorably on the offerings, it keeps an accurate tab on the number



Figures 24 and 25: The two upper forms (Figure 24) help to provide a quick check on loans submitted for approval. The third (Figure 25) is a summary of the number of discounts accepted on a specific date.

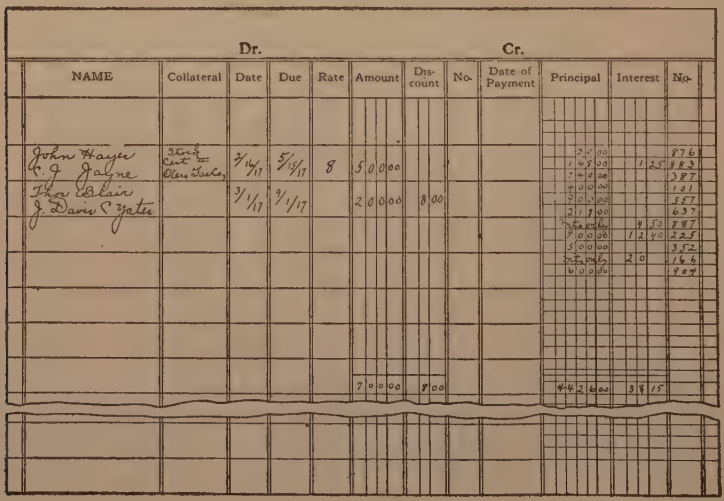


Figure 26: A western bank has saved time and labor in handling discounts by recording on this sheet those accepted. Having both the debit and credit sections, it simplifies matters for the discount teller.

of discounts, the amount, and the due date for each customer (Figure 25). A record like this shows the activity of the discounting for each customer in proportion to his line of credit.

To register all discount offerings accepted, a western bank has saved time and labor by putting into use the sheet shown in Figure 26. This is kept on the note teller's desk in looseleaf form. Having the debit and credit sides, it enables him to record every part of the transaction and to enter easily either the discount at the start or the interest when the loan is paid. All the information is so simply arranged that time is saved and errors lessened. The bank has used this system for some time and has found it most effective in comparison with other methods.

Several satisfactory ways for passing credit to the account of the customer came to light in the course of the investigation for this book. One employed by a bank transacting a large amount of discount business is reproduced in Figure 27. This slip really serves two purposes. It not only notifies the bookkeeping department what amount to credit the customer's account, but it also comes back to the discount teller as his record and proof that the credit has gone through. The entry of the average balance of the customer shows that the bookkeeper has handled it.

Another time-saving method employed by a Detroit bank is the use of discount checks (Figure 28). This check automatically furnishes all departments a clear-cut record of the transaction. When any paper has been accepted for discount, the discount teller, instead of having either to take the time to send a credit slip through or pay out the required amount of money, then and there simply makes out one of these checks, showing what amount is to be paid to the customer, what the basis of the transaction is, the discount rate, and the date due. This has proved effective.

THE MARKET AND FULTON NATIONAL BANK OF N. Y.

DISCOUNT DEP'T. TO BOOKKEEPERS DEP'T.

Date May 1 1918

CREDIT Joseph Halzman

	3	452	07
Six Months Average Balance			
Including Current Month			

RETURN TO DISCOUNT DEPARTMENT

Figure 27: This sheet has greatly reduced the discount routine of an eastern bank. It shows the bookkeeper what amount to credit the customer's account and proves that the credit has gone through.

Discount Check

Amt._____
Disc._____
Proceeds_____

Detroit, Mich._____ 191__

The Dime Savings Bank,
of Detroit

Pay to the order of _____

avails_____ due_____

_____ Dollars

$_____

_____
Discount Clerk

Figure 28: This discount pay check for customers proves up each loan made for both the discount teller's and the paying teller's records.

The advantages of the check are many. Not only is it a concise record of the transaction, but it enables the payee either to get cash immediately for a payroll, or for some other urgent need, or to place the amount to his credit in the usual way. The check, going through the paying or the receiving teller's window, automatically becomes a check on the discount teller, and on the paying or the receiving teller as well. Mistakes are less frequent, the discounts are verified satisfactorily, and the whole transaction is handled without any misunderstanding.

Should the customer send in his paper for discount, or should time be required to go over each item, then it may be desirable to notify him later of the transaction as concluded. For this purpose a banker in Missouri has had printed the special slip shown in Figure 29. A glance at this form will show its time-saving qualities. The customer has in this record an ample line-up of the credit gained from the bills he has discounted. The bank gains by eliminating doubt in the customer's mind as to just what paper has been accepted.

A watch on all exchange maturing is kept by one bank on the ledger sheet reproduced in Figure 30. Notice that a space is provided to show where the paper is payable. Often a customer may want to know just how he stands on his discounts, the dates due, and other details. To handle this quickly and to accord customers the proper service, a New York bank uses a concise memorandum form (Figure 31). It is readily apparent how much time the discount clerk saves by having this organized slip ready to fill out rather than having to dictate a letter in response to an inquiry of this sort.

Another vital phase of discounting, obviously, is figuring and entering interest. One bank uses effectively the interest record form reproduced in Figure 32. This helps considerably to determine the liquid char-

acter of the bank's paper where different rates are charged on short- and long-time notes.

Calculating interest covers a wide range of activity in a bank. Fundamentally, of course, banks live upon interest. To calculate it rapidly and correctly, therefore, is the aim of bank officers who have supervision of discounting or collection departments; in fact, quick interest-figuring is quite likely to be useful in all banking activities. Practice is required to become expert in computing interest; and there seems to be scarcely a limit to the skill which constant practice in this direction may bestow.

HOW UP-TO-DATE METHODS HELP MANY BANKS TO COMPUTE INTEREST QUICKLY AND CORRECTLY

The Treasury Department at Washington pays accurate interest, computed according to the 365 days of the year. To find the actual interest on any transaction it is only necessary, of course, to count the actual number of days involved, compute one year's interest on the amount at the given rate and take as many three hundred and sixty-fifths of this total interest as there are days in the given time. For example, suppose the actual amount of interest is wanted on $1,000 at 6%, from May 17 to July 18, or 62 days. One year's interest is $60; $60 ÷ 365 = 0.16438 × 62 days = $10.19177, making $10.19 the correct figure. In other words, multiply one year's interest on the given amount at the given rate by the actual number of days and divide the product by 365, thus: $60 × 62 = 3720 ÷ 365 = $10.19177, or $10.19, the correct result.

However, it is well generally to keep in mind that the usual modes of calculating interest start on the premise that the year is divided into 12 months of 30 days each. Though this is not exactly correct, the results serve most practical purposes.

The National Bank of Commerce
in St. Louis.

_____ _____ 191 ___

_____

Your account has credit with proceeds of bills discounted as stated below:

Yours respectfully

J. A. LEWIS, Vice President and Cashier.

	Due	Days	Rate	Ex.	Amount	Discount	Proceeds

Figure 29: When one bank finally passes on its discount transactions, they are entered on slips like this and sent to customers. The form notifies each borrower that some or all of his paper has been accepted.

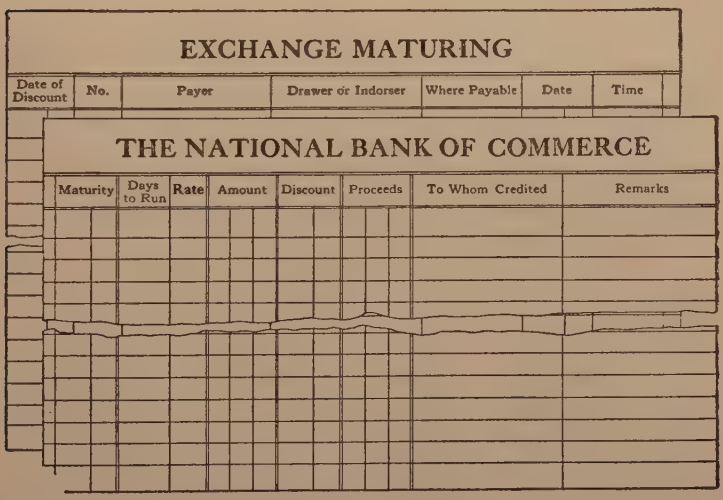


Figure 30: The banker who uses this plan for recording exchange maturing keeps a close watch on the calendar. The two looseleaf sheets facing each other form a complete record of each item carried.

A number of rules are in vogue for calculating interest. The bank officer can select, of course, from the various manuals upon the subject, the method appealing to his needs. But, in time, if he works largely upon interest, he will progress beyond most rules, and work mainly by precedents, or by what may be termed inspection, acquiring finally such expertness that he will be able to see at a glance what discount is to be deducted from the note before him.

Here is a rule which is a favorite with many discount clerks, but which, like all such rules, is used only when no shorter method of betting at the right result is available.

First, get the interest at 6%, multiplying the principal by half the number of months involved and one sixth of the days, and then figure other rates by making the necessary additions or deductions, as will be explained at greater length.

Thus to obtain the amount of interest on $10,000 for four months and six days, the following calculation is made: One half of the months is two, or, in other words, 2%, and one sixth of the days is one, or one tenth of 1%. This gives 0.021 as a multiplier. With $10,000 as the multiplicand, the product will be 210,000, or $210, which is the correct interest on the amount given, for the time named, at 6%.

Now, if the interest rate is more or less than 6%, the result may be obtained by additions or subtractions as follows:

For 10%	add 2/3 of 6%	For 5%	subtract 1/6 of 6%
For 9%	add 1/2 of 6%	For 4½%	subtract 1/4 of 6%
For 8%	add 1/3 of 6%	For 4%	subtract 1/3 of 6%
For 7½%	add 1/4 of 6%	For 3%	subtract 1/2 of 6%
For 7%	add 1/6 of 6%	For 2%	subtract 2/3 of 6%

Obviously, 6% interest on $1 for one year is 6 cents; for two months, or 60 days (one sixth of a year), 1 cent; for six days (one tenth of 60 days), 1 mill.

THE MARKET AND FULTON NATIONAL BANK

NEW YORK, _____ 191

Memorandum of Discounts made for _____

Face of Note	Dues	Days	Discount	Exchange	Proceeds

Figure 31: The memorandum illustrated here enables a bank to notify a customer very easily of the amount of his paper it has discounted.

June

	8			15			22			29		
8	32	000	00	39	500	50						
7	49	185	40	42	035	00						
6¾												
6½												
6¼												
6	91	835	00	85	620	00						
5¾												
5½	86	000	00	63	400	80						
5¼												
5	125	200	88	110	064	40						
4¾												
4½	16	025	00	25	550	00						
4¼												
4	62	190	00	94	826	00						
3¾												
3½												
3¼												
3	58	320	00	53	920	25						

Figure 32: One bank lists on this form each week (or oftener if desired) the totals of all the paper it holds according to the interest each note is drawing, giving a good line on the liquid character of its loans.

Hence to find the interest on a definite amount for two months at 6%, point off the two right-hand figures of the dollars, thus:

The interest on $2,530 for two months is	$25.30
The interest on $2,530 for six days is	2.53
	$27.83

By using methods like this, clerks quickly reach general interest results. There are still others in use, all based on the principle that at the end of 200 months, simple interest on any amount at 6% will equal the principal. Now, dividing the 200 months into aliquot parts, it is readily apparent at a glance that the interest on any principal—

For 6 days is 1/10 of 1%	For 24 days is 4/10 of 1%
For 12 days is 2/10 of 1%	For 1 month is 1/2 of 1%
For 15 days is 1/4 of 1%	For 2 months is 1%
For 18 days is 3/10 of 1%	For 3 months is 1½%
For 20 days is 1/3 of 1%	For 4 months is 2%

These methods are not based particularly on rules found in arithmetics, but on long practice in arriving at interest by various mental calculations. It is practice that makes the different methods valuable. The table just given is based on a 6% rate of interest, but the results for other rates may be obtained as outlined earlier in the chapter. Often bank employees figure quickly, not only interest periods on a 6% basis, but on a 4% or 4½% basis as well.

Taking up the 4% rate, for example, the fact is deduced that three months' interest is 1% of the principal, and nine days' interest is one tenth of 1%. Multiples and fractions of these periods in interest are readily determined. For 4½% the basic periods are 80 days, and 8 days.

To find the interest on any given amount for any number of days at 4%, point off three places as the interest for 9 days, and proceed with 9 as the factor

in the same way you do with 6 in figuring 6% interest. The interest on any given amount for 6 days at 6% is the same as 9 days' interest on that amount at 4%. The interest for 6 days on $6,000 at 6% is $6. The interest for 9 days on $6,000 at 4% is $6.

Let us suppose it is necessary to find the interest on $1,000 for 36 days at 4%. Notice the contrast between the two methods:

THE OLD WAY

Point off three places and you have $1.000, which is the interest for 6 days at 6%. Multiply by 6; as 6 goes into 36 six times, the result is $6, which is the interest for 36 days at 6%. Take off one third, $2, to make the interest 4%. The result is $4, interest at 4%.

THE NEW WAY

Point off three places and you have $1.000, which is the interest for 9 days at 4%. Multiply by 4; because 36 days is 4 times 9 days, and the result is $4, which is the interest for 36 days at 4%.

Another illustration: Find the interest on $3,000 for 39 days at 4%:

THE OLD WAY

Point off two places and divide by 2 for 30 days' interest, or	$15.00
Point off three places for 6 days' interest, or	3.000
Divide this $3 by 2, for 3 days' interest, or	1.50
The total is 39 days' interest at 6%, or	$19.50
Subtract one third to make the interest 4%, or	6.50
The result is the interest at 4%, or	$13.00

THE NEW WAY

Point off 3 places for 9 days' interest at 4% and the result is $3. Now 9 into 39 will go four times, with 3 remaining. Four times $3 is $12, the interest for 36 days. The interest for 9 days is $3, and for 3 days it will be one third as much, or $1. This added to the $12 makes the interest $13, just as above.

Interest tables have their place in practical banking, but they do not seem to meet every need. Many discount clerks, in fact, make but infrequent use of

them and some bankers never think of referring to their pages. Experts in computing interest and men who, like discount clerks, have plenty of this figuring to do, have neither the time nor the patience to turn to interest tables for help or to confirm the work of making interest calculations. Their quicker "shorthand" processes are the fruits of constant practice.

THIS REMINDER NOTICE TO CUSTOMERS OF PAPER COMING DUE HAS SETTLED THE "PAY UP" PROBLEM FOR ONE BANK

The experience of most practical bankers proves this. A discount officer may be for years in a bank, where scores of small business notes almost daily pass through the loan department, and standard interest tables may be lying around. Yet he may not make any use of them except for occasional reference in the event of doubt over some interest figure. At such times, however, they may be worth while, which is reason enough for keeping them on hand. Every banker can decide easily which one particularly meets his needs. Of course, there are different ways of arranging the tables, and upon the merits of their arrangement the value of each book depends. After all, the important point for each bank is to have every facility possible to perfect the discounting routine.

It is the general custom with most banks to notify their customers of any paper coming due in plenty of time for them to take care of it. How to couch these "Please pay up" notices in the right way to bring results without engendering resentment is sometimes a problem. One bank has obtained satisfactory results with the slip shown in Figure 33. The first line, the words "Last Day," and the line at the bottom are all in red, while the rest of the form is printed in black. Therefore, all of the specially important points are effectively emphasized. The words "Last Day" stand out with significant intensity. Notice

PLEASE BRING THIS NOTICE WITH YOU. Present to the Discount Clerk.

THE NATIONAL BANK OF COMMERCE IN ST. LOUIS

Cor. Broadway and Olive Street, ST. LOUIS, MO.

This Bank holds your paper Due_____ **Last Day**

$_____ which please give your attention, and oblige,

J. A. LEWIS, Cashier.

TO_____

_____

_____

ALL REMITTANCES MUST BE IN ST. LOUIS, NEW YORK OR CHICAGO EXCHANGE.

Figure 33: A St. Louis bank uses this warning slip to inform customers of notes about to fall due. The words "Last Day" are printed in red ink and indicate the "danger line." The notice produces good results.

NATIONAL BANK 3rd OF ST. LOUIS

REPORT OF DISCOUNT DEPARTMENT

ST. LOUIS._____ 191__

PAST DUE PAPER	DUE	AMOUNT	DISPOSITION

Figure 34: This form is used by the discount department of one bank to notify the officers of all past due paper on hand. The officers or discount committee go over the items and enter their instructions.

how quickly the slip can be filled out. Aside from the name, the due date and the amount are the only entries required to prepare the notice for mailing.

It is probably rare that a bank doesn't have some past due paper on hand. The discount department, of course, will want to know what disposition to make of it. It is necessary first, however, to lay the items before the discount committee for its attention. Here again the saving of time is essential. A record of the items, which may be visualized readily, is obviously desirable. For this purpose a St. Louis bank has worked out a practicable form (Figure 34). At once, the committee members have before them the list of past due paper. Added to this information is the due date, together with the amount. The discount committee is thus enabled to discuss the items intelligently, without having to go over a mass of papers, and to enter its decision for each note in the space "disposition." Here is an instance of how every useless motion has been eliminated to save time.

An eastern bank has grouped its loans and discounts to handle them more effectively. For instance, in one class it places its secured loans, in another its unsecured loans, and so on. This method enables the discount clerk or teller to keep percentage records of the kind of paper the bank holds. These percentage figures make up a valuable index of the status of the bank's resources.

Thus in a well-organized bank the discounting routine is reduced to the fewest figures and records, and expenses are substantially minimized, while still insuring the most satisfactory service to customers.

PART II

TESTED METHODS FOR HANDLING LOANS

CHAPTER IV

MAKING SMALL LOANS PROFITABLE

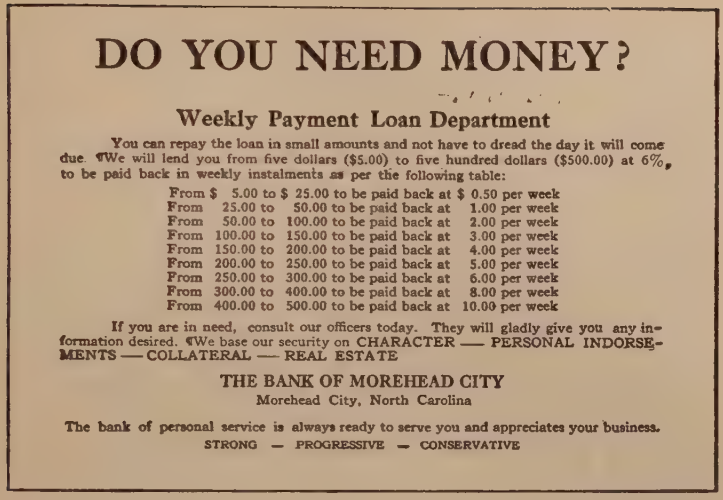
A SOUTHERN city closed its schools on account of a fuel shortage. One of the teachers was paying her board weekly and felt it would cost more than she could afford to go back to her home. She was a newcomer in the community and finding herself short of money, she did not like to ask anyone for assistance. Rather than write to her relatives for funds, she went to the Bank of Morehead City, North Carolina, and borrowed the money she needed on its weekly-loan-payment plan.

Almost any bank of ordinary size, no doubt, can adopt the same plan as a source of profit and as an effective way to build new business. Many commercial banks are minus the facilities and the machinery for handling the notes of small borrowers who can liquidate only on the instalment plan. Furthermore, the small commercial bank usually does not encourage small borrowing unless sufficient security is offered for the loan. Indeed, the majority of larger banks will not handle these small loans because they are not strictly "bankable" transactions. The result is that many borrowers, who have no security but meet their obligations promptly, must seek sources outside of the bank when they are in need of money.

Naturally, the actual detail work of handling these small loans in a bank often has wiped out the meager profit, and the business, therefore, has not been satisfactory. Not so, however, with the Morehead City

bank. After keeping a check on the number of small loan applications which it received during a certain period, it decided to adopt a system to meet the needs of these borrowers, which would show a profit. Therefore, it made an announcement like that shown in Figure 35, outlining the general plan and the terms of payment. A few days after the announcement appeared, small borrowers began calling at the bank, and inside of a month it had lent in the aggregate more than $2,000 to risks like the following:

1. The applicant did not have money enough to pay taxes which were due. He borrowed $50 and made his weekly payments promptly. This saved his property from sale for taxes.
2. Several loans were made on the weekly basis to pay for Liberty bonds.
3. A number of depositors borrowed advantageously to make cash purchases for groceries, clothing, and so on. They are able to buy cheaper.
4. One applicant had a mortgage due and was unable to pay. He borrowed of the bank and made weekly payments promptly. The bank made several loans of this character.
5. One man wanted to buy a home he was renting, but could get no terms other than cash in full. He gave the bank a note, with his father's indorsement, and is using the money he paid for rent to make his payments to the bank.
6. Another applicant's insurance was due, and he did not have enough money on hand to pay the premium. He borrowed $50.
7. Two young men of the town joined the navy. They owed some local bills which they wanted to pay before leaving. They borrowed the money and arranged for their payments to the bank by an allotment from their service salaries.



DO YOU NEED MONEY?

Weekly Payment Loan Department

You can repay the loan in small amounts and not have to dread the day it will come due. ¶We will lend you from five dollars ($5.00) to five hundred dollars ($500.00) at 6%, to be paid back in weekly instalments as per the following table:

From	$ 5.00	to	$ 25.00	to be paid back at	$ 0.50 per week
From	25.00	to	50.00	to be paid back at	1.00 per week
From	50.00	to	100.00	to be paid back at	2.00 per week
From	100.00	to	150.00	to be paid back at	3.00 per week
From	150.00	to	200.00	to be paid back at	4.00 per week
From	200.00	to	250.00	to be paid back at	5.00 per week
From	250.00	to	300.00	to be paid back at	6.00 per week
From	300.00	to	400.00	to be paid back at	8.00 per week
From	400.00	to	500.00	to be paid back at	10.00 per week

If you are in need, consult our officers today. They will gladly give you any information desired. ¶We base our security on CHARACTER — PERSONAL INDORSEMENTS — COLLATERAL — REAL ESTATE

THE BANK OF MOREHEAD CITY
Morehead City, North Carolina

The bank of personal service is always ready to serve you and appreciates your business.
STRONG — PROGRESSIVE — CONSERVATIVE

Figure 35: There is scarcely any chance for a borrower to misunderstand the terms of payment on loans made by the bank which distributes among all its customers business-getting announcements like this.

$_____ MOOREHEAD CITY, N. C., _____ 191__

On _____ 191____ promise to pay to

_____ or order, the sum of

_____ Dollars

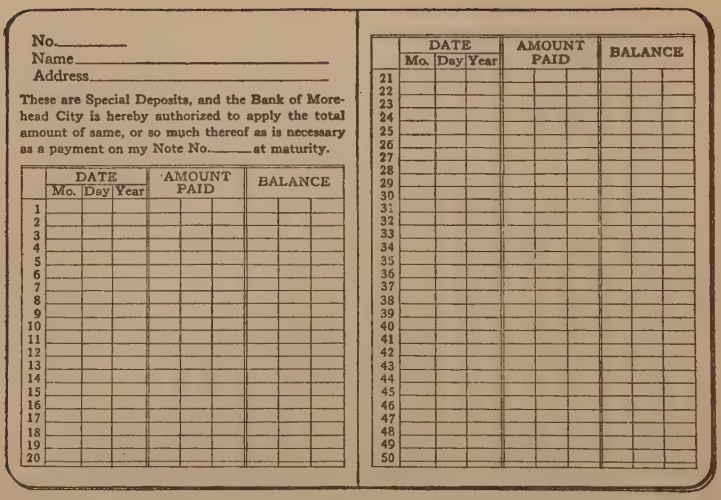
Negotiable and payable at THE BANK OF MOREHEAD CITY, Morehead City, N. C., with interest after maturity; And we hereby agree to continue and remain bound for the payment of this note and all interest thereon, notwithstanding any extension of time granted to the principal, and notwithstanding any failure and omission to protest this note for non-payment, or to give notice of non-payment or dishonor or protest or to make presentment or demand for payment, expressly waiving any protest and any and all notice of any extension of time or of non-payment or dishonor or protest in any form, or any presentment or demand for payment, or any notice whatsoever. With costs of collection if same shall not be paid at maturity

For Value Received

_____ [SEAL]

_____ [SEAL]

Figure 36: Although this note form is not particularly unusual, it deserves a place here because of its wording and the help it has been to a southern banker in handling small loans, as outlined in Figure 35.



No._____
Name_____
Address_____

These are Special Deposits, and the Bank of Morehead City is hereby authorized to apply the total amount of same, or so much thereof as is necessary as a payment on my Note No._____ at maturity.

	DATE Mo.	Day	Year	AMOUNT PAID			BALANCE		
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									

	DATE Mo.	Day	Year	AMOUNT PAID			BALANCE		
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									
36									
37									
38									
39									
40									
41									
42									
43									
44									
45									
46									
47									
48									
49									
50									

Figure 37: This bank requires weekly repayments on loans, which it enters for the customer in a special deposit pass book like the above. The amount paid, the date, and the balance stand out prominently.

WEEKLY PAYMENT LOAN DEPARTMENT

The Bank of Morehead City
Morehead City, N. C.

Pay to the order The Bank of Morehead City the total sum to my credit made as a special deposit in the Weekly Payment Loan Department No._____, said amount to be applied as payment on my note.

_____

$_____

Figure 38: The same bank furnishes small borrowers this special order to sign. It is used to make fully clear the weekly payment obligations so that there will be no misunderstanding on the part of the customer.

8. The bank advised merchants to have their old and slow customers' accounts closed up with notes, and to place them with the bank to be settled by the debtors on the weekly plan. The customers who were disposed to settle were glad to take care of their obligations in this way, making small weekly or monthly payments.

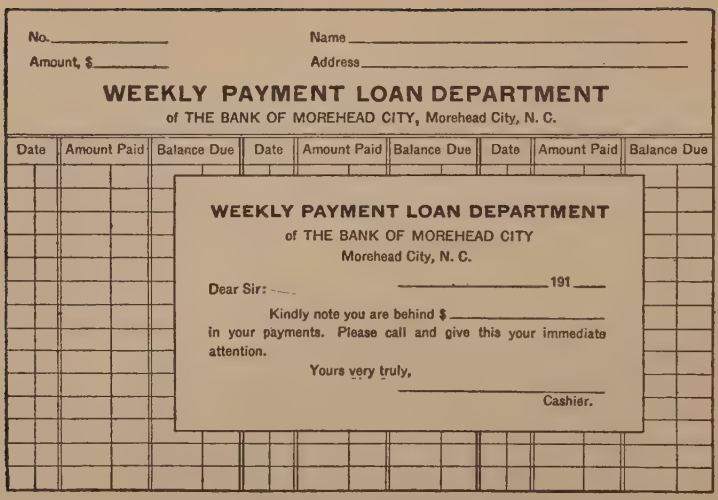
A general effort was launched to educate the people and the merchants to use notes in the place of open accounts, and thus to stimulate the idea of the trade acceptance. Furthermore, it has been found that the plan is helping to teach people to save part of their wages and salaries each week, and after their debt to the bank is paid, they often join the Christmas club, or open an account in the regular savings department. There are many similar instances showing how the small borrower has received accommodations and how the business of the community has been improved as a result.

SMALL LOANS ARE OFTEN CONSIDERED UNPROFITABLE— BUT NOT IF HANDLED IN THIS WAY

"At first the plan looked small to us," says an officer of the bank, "but realizing we must take advantage of the so-called little opportunities to develop our business we installed it. After it was in operation a few months, we found that the accumulated weekly deposits more than paid for the extra expense of running the department which demonstrated the effectiveness of the plan."

In making a loan under this plan, the bank uses the same general methods as in all other loans, except to reserve the right to apply accumulated weekly deposits on the note, which is reproduced in Figure 36. Each loan, of course, is designated by number.

After the note is made and approved, the borrower receives a pass book (Figure 37). Ordinarily, in accepting notes without mention of weekly payments, the bank might naturally incur the danger of accumulating



No. _____ Name _____

Amount, $_____ Address _____

WEEKLY PAYMENT LOAN DEPARTMENT

of THE BANK OF MOREHEAD CITY, Morehead City, N. C.

Date	Amount Paid	Balance Due	Date	Amount Paid	Balance Due	Date	Amount Paid	Balance Due

WEEKLY PAYMENT LOAN DEPARTMENT

of THE BANK OF MOREHEAD CITY

Morehead City, N. C.

_____ 191____

Dear Sir: ——

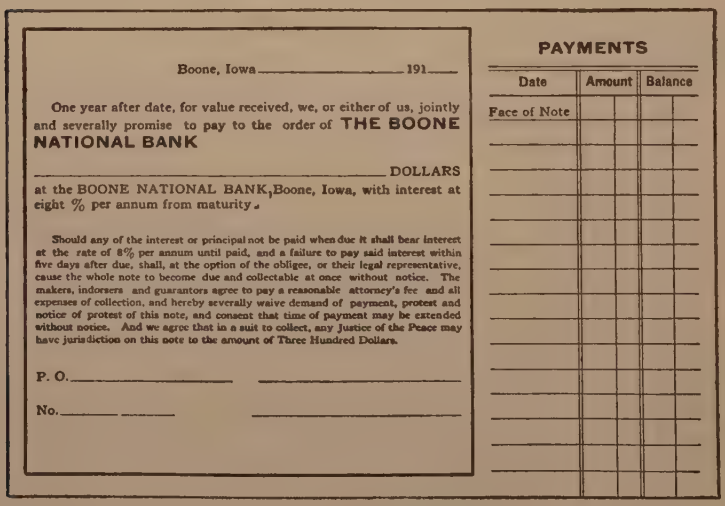
Kindly note you are behind $ _____ in your payments. Please call and give this your immediate attention.

Yours very truly,

_____

Cashier.

Figures 39 and 40: When small borrowers fail to meet their instalment payments on loans promptly they receive reminders like the small form. The larger card is the ledger record of payments made on each loan.



Boone, Iowa _____ 191____

One year after date, for value received, we, or either of us, jointly and severally promise to pay to the order of **THE BOONE NATIONAL BANK**

_____ DOLLARS

at the BOONE NATIONAL BANK, Boone, Iowa, with interest at eight % per annum from maturity.

Should any of the interest or principal not be paid when due it shall bear interest at the rate of 8% per annum until paid, and a failure to pay said interest within five days after due, shall, at the option of the obligee, or their legal representative, cause the whole note to become due and collectable at once without notice. The makers, indorsers and guarantors agree to pay a reasonable attorney's fee and all expenses of collection, and hereby severally waive demand of payment, protest and notice of protest of this note, and consent that time of payment may be extended without notice. And we agree that in a suit to collect, any Justice of the Peace may have jurisdiction on this note to the amount of Three Hundred Dollars.

P. O. _____ _____

No. _____ _____

PAYMENTS

Date	Amount	Balance
Face of Note		

Figure 41: A western bank has profitably handled small instalment loans by using a convenient note form like this. The payments are entered easily on the face of the note, thus saving time in handling.

past due paper because of the failure of customers to make payments promptly, even though deposits are made for the express purpose of liquidating the note, as stipulated in the pass book. For this reason, in addition to the pass book with its spaces for 50 payments, there is provided a separate order like that shown in Figure 38, which furnishes further protection. After the bank makes the loan, the borrower fills out this card, thus removing effectually the danger of any misunderstanding.

Should the borrower for any reason fail to meet his payments promptly, he receives a card similar to that shown in Figure 39.

The mechanical work of keeping track of these small loans, once they are made, is simple. A card (Figure 40) is made out, giving the number of the loan, the amount, and the name and address of the borrower. It provides also for the date of payment, the amount paid, and the balance due. It is kept in a card file, alphabetically arranged, and makes an effective record.

When a banker makes a systematic effort to encourage small borrowers, as in this North Carolina bank, he advances the interests of his business, but assists in the general progress of the community. He and the borrower are not the only beneficiaries. Storekeepers and doctors also frequently share in the general results, as they carry a great many slow accounts on their books, mainly because their customers, although honest, are unable to pay.

How this army of debtors, which is quite an element in every community, can help yield a profit to banks, and business men of the community as well, is illustrated in the methods successfully used by the First National Bank of Boone, Iowa.

Let us take, for example, a typical instance among many that come under the observation of this bank. John Heath owes the grocer $35; the butcher, $20; the

clothier, $50; the shoe man, $15; the doctor, $25. He has allowed these accounts to stand for more than 90 days. He has been ill and has exhausted his little savings account. When he begins to work again, he finds that he owes $125. He has no property and he does not want to appeal to any of his friends for their indorsement on a note. The merchants are pressing him for payment and he cannot buy more goods until he settles his outstanding obligations.

So Heath goes to the banker and lays his case before him. He cannot offer collateral and he cannot pledge his wages. He is thrifty and industrious and he promises to pay the amount he borrows in one year if he can make the loan. In all commercial banks, of course, the promissory note is a common instrument, but usually it is of no value unless the banker either knows the capacity of the borrower to repay or secure an indorsement that guarantees payment.

Now this Iowa bank officer hands the prospective borrower a note like that shown in Figure 41 and requests him to fill it out for $135. It covers not only the amount desired, $125, but the interest for the year as well, which in this instance, is 8%. Therefore the total figure in principal and interest which the customer promises to pay is $135, the interest at 8% amounting to $10. He agrees to settle by monthly payments of $11.25, which means complete liquidation of the loan in one year.

The bank then presents to the respective creditors, checks calling for the amounts due them and gets their indorsement on the debtor's note to guarantee the several amounts paid out. Space on the reverse of the promissory note is provided for each of the indorsers and the following stipulation is made:

"We, the indorsers of this note, for value received, hereby severally guarantee the payment of this note in the sum set opposite our respective names, and we

agree, upon failure of the maker to pay said note when due, each to pay the amount set opposite our respective names, or if payments have been made on said note, such pro rata share thereof as such sum bears to the amount of said note remaining unpaid after maturity."

Thus the bank is protected, the debtor receives a receipt in full from each creditor, and the slow accounts are closed. If the borrower lives to the terms of the note the creditors' liability is automatically discharged. In case he fails to meet the payments, the creditors as indorsers have to make good. Thus the bank has negotiated an entirely safe loan at a satisfactory interest rate. The small borrower receives encouragement, and the creditors have plenty of ready money in place of slow accounts.

Inasmuch as the merchant is liable because of his indorsement, it is practically certain that the debtor whom he sends to the bank will be a pretty good risk. At least this has been the experience so far. And the banker, before he advances the money, has an opportunity to judge if the borrower can make good his promise to pay. By giving this sort of help to the small borrower, the banker often builds a potential customer whose business in either the commercial or savings department proves to be of value.

CHAPTER V

GETTING THE MOST OUT OF COMMERCIAL LOANS

THE most effective routine machinery is necessary to handle commercial loans because usually they are made for a short time only. Therefore, owing to the frequency with which they mature and to the constant changes in their size and character, they require the most careful supervision. Of course, this does not mean that commercial loans without exception are made for short terms only. Sometimes they are accepted for a period of six months, or even longer, from sound firms doing a seasonal business. For instance, packing companies, grain houses, and so on may be able to float purely commercial loans for a fairly extended period.

Just how are these commercial loans classified? In a general way the term means the accepted paper of reputable business houses of definite financial standing, but may include, too, loans extended to individuals without security where a line of credit has been granted. But here a distinction should be drawn between commercial loans by a bank to its own customers, and notes, called commercial paper, purchased in the "open market" anywhere in the country. In other words, open-market or commercial-paper loans are not strictly commercial loans. Usually they are purchased outright and discounted, while ordinary commercial loans occasionally bear interest payable at stated periods or at maturity. Most bankers do not refer to commercial paper at any time except as it means notes purchased

through note brokers. In this chapter, therefore, will be described specifically ordinary commercial loans which a bank makes to its customers.

In one way loans of this sort are simple to handle because no collateral is involved. They are made on the basis of the line of credit granted. Commercial paper loans are in this sense without collateral. Investigations, financial statements, and other helps form the bank's conclusions on these particular purchases of notes. In other words, the bank's assurance of payment lies in its knowledge of the concern's finances, its assets, and its volume of business.

As a matter of fact, the great burden of work and responsibility in the commercial department devolves on the credit department which in many instances has to make thorough and exhaustive inquiry into the affairs of applicants. But this phase of handling commercial loans will be more fully covered in the volume on credits and collections.

The notes, then, to be handled under ordinary commercial supervision includes both (1) loans to individuals, and (2) loans to business houses.

How are they recorded and taken care of with least attention and labor? Most loans of this kind are, of course, made to regulate depositors of the bank. In fact, investigation shows that few banks are ever interested in lending money without security, except to depositors, and, of course, to concerns floating standard commercial paper. But this, again, refers to purchasing notes in the open market, details of which will be considered later in this chapter. Therefore, when ordinary loans are granted, they usually pass to the credit of the customer.

In order to have this information concisely and clearly recorded, one bank has a convenient register, the pages of which are reproduced in Figure 42. Spaces are shown for the name of the account to which the loan

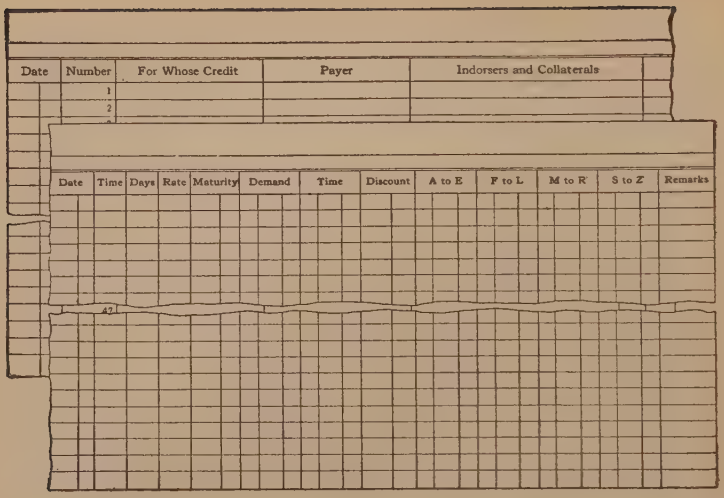


Figure 42: This general register of commercial loans helps one bank to keep a concise record of its lending operations. A glance at the two sheets enables each officer to tell the history of each note in brief.

Date_____

Name_____

Business_____

Average Balance 191__ $_____

Average Loan 191____ $_____

Increase Desired $_____

Remarks

_____

_____

_____

_____

Name

Figure 43: Each officer of a middle western bank receives one of these slips on which to give his opinion of a borrower who requests an additional line of credit. The plan helps the discount committee to decide.

is to be credited, for the name of the payer of the note, for any indorsers or collateral if included (although it would then come in the class of collateral loans), for the date, the rate of interest, the time of the loan, and its character, whether time or demand. Notice also that provision is made to identify it properly in the index.

This sheet, while giving complete information, is arranged so simply that even a clerk in a small bank should have no trouble handling the necessary routine quickly and accurately. It is just the difference between practical, simple forms and cumbersome, impractical ones, that sometimes changes cramped profits into satisfactory returns.

THE FOLLOWING PLAN HELPS THE OFFICERS OF ONE BANK TO PASS ON APPLICATIONS FOR CREDIT

When one middle western banker receives a request for an increased line of credit, he turns it over to a stenographer who enters it on a slip (Figure 43) in duplicate, or triplicate, or in whatever number needed, sending a copy to each officer concerned. The distribution of these copies to each officer individually gives him a written reminder so that he can take up the subject at his leisure and offer his careful opinion when the application comes up to be acted upon. The plan not only saves time but tends to eliminate any haphazard handling of the routine. Under "remarks" the officer who gives the information may state when a report is desired.

Still another bank saves time by sending to its customers any information having to do with changes in the laws covering loans or any other facts of value to them. For instance, when the 1917 war tax went into effect, this bank sent to each of its customers a printed notice similar to the one which is shown in Figure 44, fully explaining the revenue stamps required on various loans or drafts.

This notice was sent, of course, along with other circular advertising literature, which made the cost slight. But think what this largely forestalled. It saved practically one man's time, because, instead of having customers flocking to this or that official and engaging him in a long conversation over a trivial yet necessary detail, these slips gave complete information. For any similar notification any bank, doubtless, can serve its customers satisfactorily by following this plan.

To save the discount teller all possible time, a Missouri bank prints its various forms of notes on different colored paper. For a regular commercial time loan the customer signs a white note, while pink is the color used to designate a demand note. Thus each can be placed in the proper file without unnecessarily looking at the make-up paper.

Figure 45 shows the ticket used by one bank in notifying the bookkeeper of a temporary loan. Notice the simplicity of the form.

In Figure 46 is illustrated a convenient exchange-maturing ledger. This is somewhat like the loan register shown earlier in this chapter and is arranged numerically for easy reference.

Let us consider for a moment now the purchase and resale of commercial paper by banks. This has become, in many instances, an important phase of discounting. All over the country, as bankers know, are reputable note brokers who purchase from high-class business houses their surplus of notes. In other words, a large grain dealer, a manufacturer, or a retail merchant, especially in smaller communities, may have reached his own bank's legal limit in borrowing, and yet may be entitled to more credit. He places his surplus paper with a note broker who in turn resells it to banks which have a surplus of funds to invest.

The note broker, of course, guarantees the signature and the standing of the maker of these notes and also

REVENUE STAMPS ON NOTES

The new War Tax internal revenue law provides that on and after December 1, 1917, every Promissory Note and Time Draft shall have attached to it a revenue stamp or stamps of the value of 2c for each $100 or fraction thereof. The person using or affixing the stamp must write or stamp thereon, the initials of his or her name, and the date upon which the same shall be attached or used.

EXAMPLE

A time draft or note for $100 or less will require a two cent stamp.

A time draft or note for over $100 up to $200 will require four cents in stamps.

A time draft or note for over $200 up to $300 will require six cents in stamps.

Each additional $100 or fraction thereof will require two cents, whatever the amount of the note.

Figure 44: A western bank notifies customers of any development affecting loans by sending out with other literature slips like these. The plan saves much time by reducing the inquiries of customers.

CHARGE TEMPORARY LOANS $

CREDIT

191

Figure 45: This convenient slip is used by the discount teller of one bank to notify the bookkeeper of each temporary loan which he has made so that the proper entries can all be made easily and correctly.

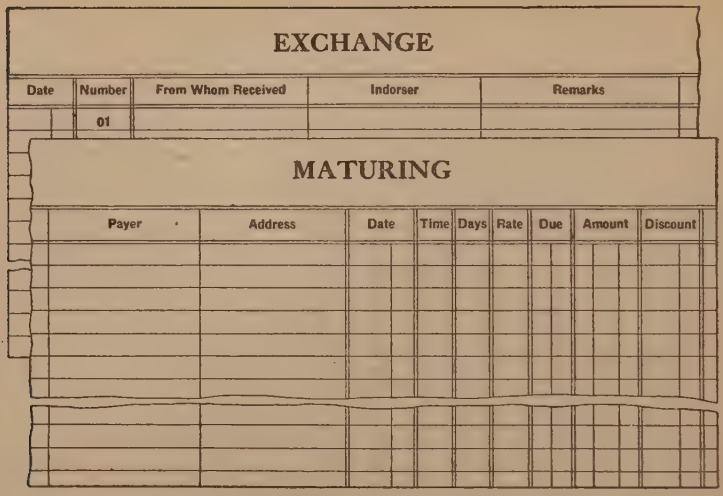


Figure 46: Here are two sheets of an exchange ledger, which has proved satisfactory in the discount department of one bank. Information is assembled so that all maturing items can easily be watched.

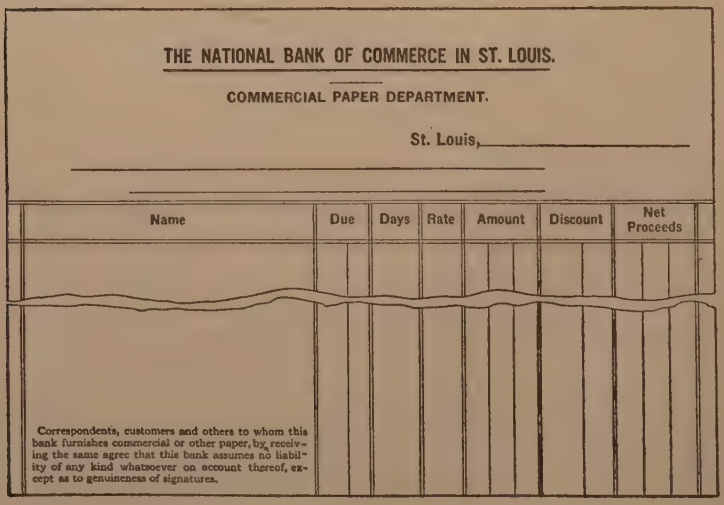


Figure 47: A St. Louis bank uses this simple sales record in duplicate to list the commercial paper it furnishes to a customer. It provides for the name of the buyer and for a description of the different items.

backs them up with his own responsibility, so far as it goes financially. His success, of course, depends on his rediscounting only first-class notes, backed up by the most rigid financial statements. Therefore, the banker is reasonably sure that purchases of paper of this sort are safe. A bank's surplus funds thus can often be profitably utilized in this direction.

One great reason why banks find it worth while to purchase commercial paper is the absolute independence it gives them. Generally a note broker gives the bank a 10-day option on paper to be purchased, which enables the banker to investigate its worth thoroughly and to turn it down within that time if for any reason he does not like it. Likewise, when the paper matures it is not renewed. Consequently, considering that it is, for the most part, short-term in character, the bank thus has an advantage over straight loans to depositors, because requests for renewals from customers are so often made at times when the bank can ill-afford to continue the accommodation.

Another advantage of commercial paper is that it sometimes affords bankers attractive offerings to customers for short-term investment of their money. To handle this routine, a simple record of sales is essential, like Figure 47, which is used by a western bank as a memorandum for itself and for the customer. The duplicate is retained and the original sent out. The name of the buyer is entered at the top and a description of the various items of paper below, with the discount given. The notification at the bottom relieves the bank of collection responsibility for the paper.

Here is afforded a simple method of taking care of customers' wants in a satisfactory way.

Still another advantage of commercial paper is that it may be purchased through note brokers from business firms in various towns and cities in all sections of the country. A variety of paper from many localities thus

insures the banker greater safety in times of possible stringency. Therefore loans of this sort are of special interest. They are usually safe and can be handled with the ordinary routine of commercial notes.

How these commercial loans pass through the routine of the bookkeeping department is taken up more fully in the volume on internal management. Here, however, you have the methods employed over the discount teller's desk where simplicity evidently is the keynote.

CHAPTER VI

WHAT SORT OF PAPER TO ENCOURAGE

WHAT paper are progressive bankers most eager to carry? Do they look with greatest favor on single-name paper, accommodation paper, or two-name paper? Investigation indicates that two-name paper in the form of trade acceptances is rapidly gaining in popularity among progressive bankers all over the country.

Those who are far-seeing are practically united in their aversion to "accommodation" or indorsed paper for regular loans. Most bankers are familiar with the story of the man who had drawn up his note, but had tried in vain a dozen times to find an indorser whom the bank would accept. He was turned down finally when the banker said the last name volunteered would sentence the maker of the note to a place among thieves. At that, the story does convey a strong point: the unsatisfactory features of accommodation paper both for bank and customer.

Single-name paper, as a rule, stands in more favor than accommodation paper, but it is not considered as desirable as trade acceptances. However, the single-name note under present-day banking is worth taking up for a moment in passing. From the commercial-loan point of view, the straight note of an individual or company is clear cut and definite as the basis for a banking transaction. This is because of the thoroughness of the progressive credit department in looking up the applicant's financial standing and business ability when

his request is received. Unless ample security is vouchsafed, no bank will lend its money without receiving from the applicant a satisfactory proved-up financial statement. And even with security, most bankers say there is little reason for accepting the note of anyone whose credit and financial statement are not of an acceptable standard. It is this idea of single-name paper that emphasizes its value to banking today.

In general, then, investigation tends to show a rapid decline in the acceptance of accommodation paper, with single-name paper, perhaps, giving way gradually to trade acceptances where they can be used advantageously. One banker says of accommodation paper: "We are discarding handling it altogether except in the most isolated cases. Taking a man's note after he has secured the reluctant signature of some friend to make it good too often causes trouble for us. The bank's function ought not to be that of a legal collection agency and that is what we are up against very often on accommodation paper."

The wide distinction, however, has to be made between "accommodation notes" and the various forms of good two-name paper, which includes trade acceptances, to be more fully discussed later in this chapter, bills receivable of business houses in good standing, and rediscounts of other banks. These classes of two-name paper are not considered as "accommodation notes" but as legitimate business transactions arising out of specific buying and selling activities. It is essential that this point be clearly kept in mind always.

Aside from the above important exceptions, however, there are still times when accommodation paper may be permissible.

"We never accept these notes willingly," says an Iowa banker, "but there are times when it is better business than continuing with single-name paper of

poor character. For instance, we lend considerable money to farmers. Sometimes a prosperous renter of a farm will seek a loan for new cattle or for other legitimate needs. Suppose this farmer, as sometimes happens, suffers misfortune of one sort or another. He can't pay his note and the risk from the banking point of view becomes hazardous. Perhaps a neighbor farmer joins him in an effort to get the farm going right again. We ask the maker of the original note to have his neighbor indorse the note with him. It then necessarily becomes accommodation paper, but it is a protective measure, as you see."

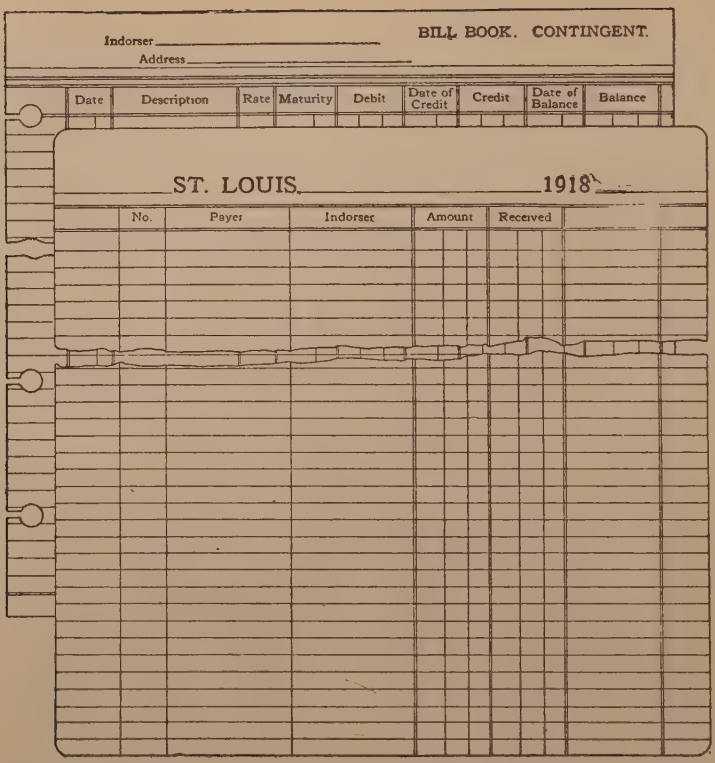
SOME REASONS WHY PROGRESSIVE BANKERS ARE ENCOURAGING THE USE OF TRADE ACCEPTANCES

This illustrates how accommodation paper may be valuable to banks under certain conditions. To provide a simple record for these loans, one bank uses the ledger form shown in Figure 48. Spaces are included for the names of the maker or signer and the indorser, for the amount, and for the "received" entries. If a bank finds it necessary to have a record, none probably could be arranged more simply.

It is also essential for the bank to keep accurate tab on the contingent liabilities of each customer. Therefore, when a customer, by any chance, indorses a note for another, this information is entered on the contingent bill book (Figure 49). A concise description of the contingent paper is easily listed here.

Rediscounts from other banks are handled by the discount department on forms similar to that shown in Chapter VII (Figure 53).

One point to consider in handling accommodation paper is to guard against "straw-men signers." Sometimes large concerns get men associated in allied activities to indorse notes. In other words, the risk remains the same, for the financial backing of the



Figures 48 and 49: These pages illustrate valuable records used in a middle western bank. The one at the front taken from a loan ledger forms a concise record of accommodation paper held by the bank.

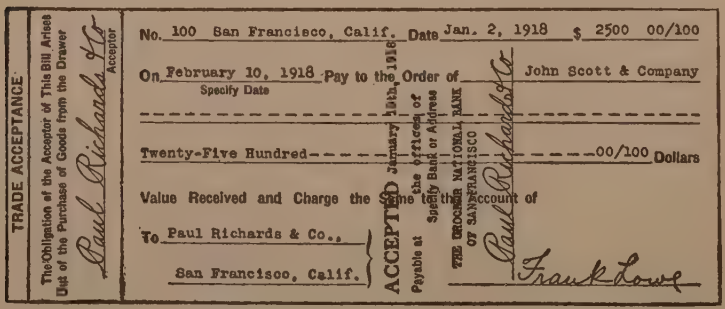


Figure 50: The Federal Reserve Bank approves this form of trade acceptance. It is, of course, one of several varying types in use.

indorsers is identical with that of the maker of the note. All these factors have to be taken into consideration to make all the bank's paper satisfactory to the bank examiner. "How much in assets is actually behind the signers of the notes on hand?" he asks. Here is where the trade acceptance is found to be of particular value.

In accepting single-name paper the banker is lending against mixed security, that is, goods already sold (represented by accounts or bills receivable), goods in stock not yet sold, and perhaps also against the plant, and, indirectly, against good will. Two-name commercial credit, however, such as trade acceptances, represents one of the most liquid and satisfactory forms for purely commercial loans, and is one of the safest of all temporary investments. The credit denoted by it gives evidence to the banker that the buyer in the transaction is prepared to meet his obligation at a certain definite time and is adopting an economical way of conducting his business.

The best investment a bank can make, perhaps, is the purchase of trade acceptances or similar paper representing actual sales of commodities or merchandise, for which future payment is guaranteed. Banks, therefore, have no hesitancy in purchasing acceptances because they are based on definite transactions. All details behind an acceptance are more readily ascertained than those in connection with commercial paper which is offered on the open market and about which the banks usually possess only a limited knowledge, unless, of course, a direct investigation is made.

The bank which purchases a trade acceptance, instead of the single-name paper of its depositor, is really advancing a loan on which he gains not only the security of single-name paper, but also the added security represented by the name of the acceptor or

buyer of the goods. Since many state banks and all national banks can lend to no single borrower more than 10% of their capital and surplus, they are unable often to meet all the requirements of some of their large borrowers who sometimes have to go outside of their own cities for a part of their financing. Occasionally this prevents the local bank from using its funds for what might often appear to be desirable loans. But this limitation is largely overcome as the borrower, with the aid of the banker, gets his customers to use the trade acceptance, because then the bank can discount the acceptance regardless of the 10% restriction.

Where banking facilities are limited, local manufacturers and merchants sometimes have found it difficult to develop their business because of insufficient working capital or because of high rates of interest. The use of the trade acceptance, however, while enabling the banks to employ their resources safely, also permits them to encourage local enterprises, because the paper then is accepted as collateral for larger loans. The banks are frequently able to make a lower rate when they purchase or discount acceptances than when they purchase single-name paper, because of the simple fact that the risk is considerably lessened.

"No method of analyzing credit now available is so conclusive in setting forth the commercial character of any desired loan, as the evidence presented by a trade acceptance," says one banker. "Every element of doubt, except the possibility of actual fraud, is removed. From the banker's point of view, it will make it much simpler and easier definitely to interpret the financial statement of a buyer seeking credit, as against the more or less indefinite item of 'accounts receivable' to which a fair percentage of depreciation must be applied; any item covered by a trade accept-

ance will represent something infinitely more tangible on which to base a line of credit. From the point of view of a buyer seeking credit, it will enable the seller to grant credit more readily, and more of it."

Trade acceptances, therefore, create a larger volume of bankable paper and a larger volume of business for the banker, as well as for the business man, and naturally produce for the bank increased earnings. They help to lessen the tendency, especially among small banks, to carry too many slow loans, because they mean an accumulation of self-liquidating paper. Furthermore, the acceptance tends to lessen the custom in many banks of repeatedly renewing loans.

TRADE ACCEPTANCES MEET THE REQUIREMENTS OF THE FEDERAL RESERVE SYSTEM

The Federal Reserve Bank, it is true, is not permitted to discount a trade acceptance having a longer maturity than 90 days. A member bank, however, can discount a trade acceptance of longer maturity and carry it until it comes within the 90-day period, when it can then be discounted at the Federal Reserve Bank. Every time a trade acceptance is substituted for a promissory note based on the mixed credit of the maker or for a book credit of possibly still more doubtful value, the lending power of the bank is strengthened in a corresponding degree.

By encouraging the use of acceptances which can in turn be used as a basis for note issues by the Federal Reserve Bank, the banker is in reality assisting in the development of the nation's general credit structure and is increasing his own local opportunities to make larger and safer loans. Growing competition, sometimes leading to unsound business methods, coupled with the increasingly important problem of rising costs, emphasizes this necessity for better business methods and for more careful consideration of commercial

credit. Trade acceptances largely meet this need both for the banker and the business man. Progressive bankers, therefore, are encouraging their use.

The elimination, where practicable, of open-book accounts and the substitution of the trade acceptance will undoubtedly help to reduce the excessive amount of capital in use by many manufacturers and merchants and will save the interest on a large amount of credits now outstanding in book accounts. This in turn will enable bankers to give more extensive assistance to customers and still keep their lending within the bounds of safety. It is obviously much safer for credit in general for manufacturers and jobbers to sell on longer time with acceptances than to sell on so-called "short time" with open accounts, which may or may not be paid at a definite date.

To be eligible for purchase or discount by a Federal Reserve Bank, a trade acceptance should present satisfactory evidence that it is drawn by the seller on the purchaser of the goods sold, and must mature within 90 days of its purchase or discount. One exception to this rule is agricultural or livestock paper which may have a maturity date, at the time of discount, of not more than six months.

There are various forms of trade acceptances designed for different kinds of businesses. The bank, of course, cares little about their make-up, providing they conform to the requirements of the Federal Reserve and are convenient to handle. Figure 50 is a sample form approved by the Federal Reserve Bank, while Figure 51 is used by a southern manufacturing concern. It is worth while to note that it resembles the Federal Reserve form very closely, but has been changed in some minor respects to suit the individual needs of the concern. The acceptance is attached to the bottom of the invoice and can be torn off and returned by the customer. A complete explanation of

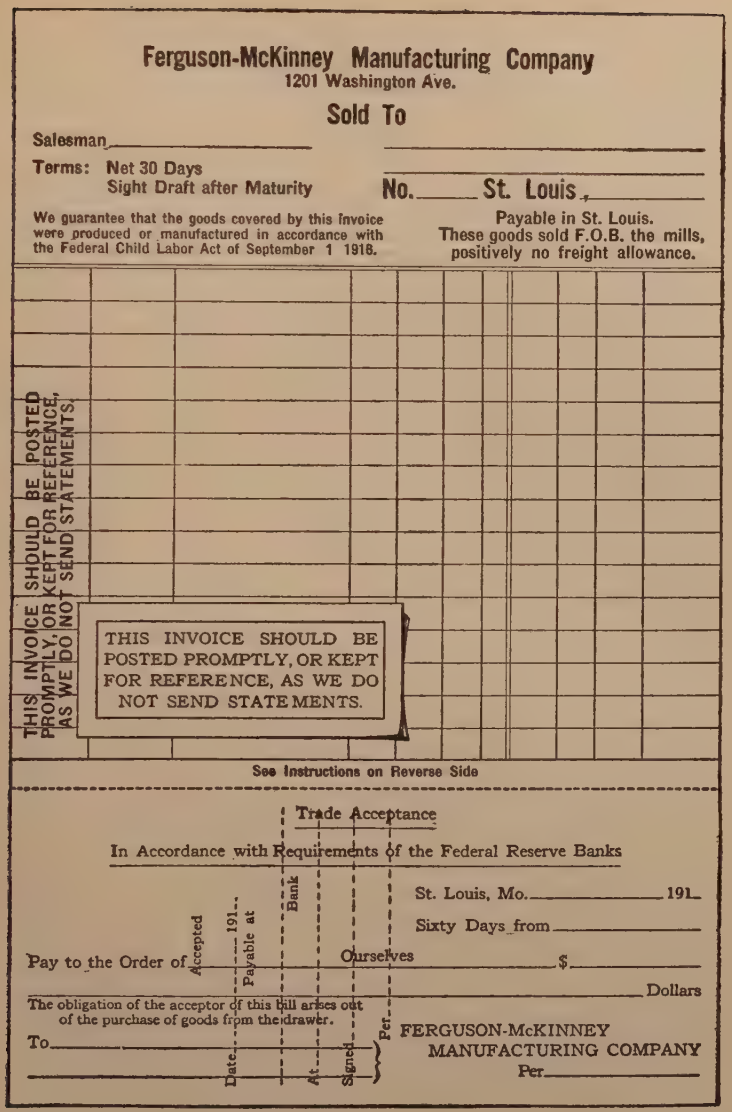


Figure 51: A southern bank has worked out this invoice and trade acceptance sheet, which differs somewhat from the Federal Reserve form in its adaptation to an individual business. For convenience the acceptance is attached to the invoice. When accepted it is detached.

its use and purpose and the method of filling it out is printed on the back of the invoice.

Either of these forms is satisfactory for rediscount at the Federal Reserve Bank, and the banker in any community will find that either can be easily adapted to the needs of almost any of his customers. It is important to bear in mind that the form used should always be as simple and as clear as possible, and the explanation to go with it should be adequate but not involved. It is important also for the banker to make clear to his customers that the acceptance differs from an open-book account only in being a written acknowledgment of the transaction, which makes it negotiable. The words "note" and "draft" should not be used in connection with it, because they convey ideas that are not logically associated with the trade acceptance.

The Federal Reserve Board has defined clearly the relation between sight drafts and trade acceptances. A trade acceptance must have a fixed maturity of 90 days or less. Since, by its terms, a sight draft does not mature until presented for payment and since this time may be later than the 90-day period, it was held that such a draft is not eligible for rediscount.

Investigation indicated that many banks have discounted acceptances for amounts less than $100. It further showed that a little more than half the users discounted this sort of paper as soon as they received it from the buyer, while others held it until it matured and then placed it in the bank for collection.

The general use of the acceptance seems destined to help banking generally. As commercial paper it will be fundamentally more sound, and more nearly uniform in quality; it will be presented for discount with greater regularity, thereby avoiding congestion; it will be more helpful to the banker in showing the true credit standing of both seller and buyer. As a result, banking resources will be rendered more

flexible and their commercial possibilities for the benefit of business will be materially extended.

A banker's loans no longer will constitute a direct drain upon its resources, but, in effect, will represent a guarantee by the bank of the soundness of acceptances, which, because of their eligibility, can be converted into cash both quickly and economically. Expressed a little differently the bank will then be in a position to lend credit instead of cash.

HOW THE TRADE ACCEPTANCE BENEFITS BOTH THE BUYER AND THE SELLER

The country bank, or the bank of modest capital, operating, for illustration, in a manufacturing community in which the demand for accommodation is active, no longer will be obliged to confine its lending activities within the narrow limits imposed by the restrictions of single-name paper as provided by law, but will be able, under the Federal Reserve ruling on acceptances, to provide credit accommodation for its customers to an extent more fully in harmony with the needs of the community. The value of this to both banker and customer is apparent. The customer will be able to follow his natural inclination to deal more exclusively with his local bank instead of resorting to outside financial aid. The banker will be able to increase his business and profits and will likewise gain additional benefits from his membership in the Federal Reserve System.

When a banker receives an offering of acceptances to examine for discount, there are many points requiring careful observation, in order that his portfolio may not become filled with bills which are not marketable or which may not be paid promptly upon maturity. If the drawer, acceptor, and indorser are satisfactory, the point next in importance to ascertain is whether the bill of exchange is drawn for a genuine transaction,

or for the purpose of raising capital which, strictly speaking, would not be within the recognized limit of its negotiable value.

The bank's rate of interest, as quoted in certain centers, is the rate of discount for approved bills of exchange and acceptances, regulating the supply of money on the one hand and the demand for credit on the other. Low discount rates are an incentive to a revival of trade, and advancing quotations in turn act as a natural check on expansion. These limits therefore produce a gradual increase or decrease in the general demand for money.

There is a marked difference between discount and interest. This may be worth considering by some banks in discounting trade acceptances. For example, the following table shows the difference in the percentage of profit annually between lending money to earn interest, and advancing funds to get a discount.

Interest	Discount	Interest	Discount
1%	1.010101%	6%	6.382968%
2%	2.040816%	7%	7.526881%
3%	3.092783%	8%	8.695652%
4%	4.166666%	9%	9.890109%
5%	5.263157%	10%	11.111111%

This noticeable difference arises because of the fact that the interest on a loan is usually payable monthly or under periodical term agreements, which are clearly defined in the notes, whereas the discount on a bill of exchange is deducted at the time of negotiation.

Illustrating practical phases of trade acceptances, they may be classified thus:

1. The general acceptance which assents without qualification to the order of the drawer.

2. The qualified acceptance which in express terms varies the effect of the bill as drawn. This sort of paper divides itself as follows:

a. A conditional acceptance, making payment by the acceptor dependent upon the fulfilment of the conditions definitely stated.

b. A partial acceptance, effecting payment in part only of the amount for which the bill is drawn.

c. A domiciled acceptance, specifying payment at a particular place.

If no special conditions are included in the instrument, the drawee accepts it as payable in the place where he lives, unless it be more advantageous to make it payable at one of the financial centers such as New York, Chicago, St. Louis, or San Francisco.

The trade acceptance has precedence over the open-book account in that the signer of such an instrument agrees to all the terms of purchase as having been complied with, while, with an open-book account, the individual charge entry must be proved and may lead to differences of opinion.

An acceptance performs two kinds of offices in general commerce: (1) it saves the transmission of cash, and (2) enables the creditor not only to arrange with the debtor for a fixed date of payment, but, if needed, to obtain from his bank an amount equivalent to the debt before it is properly due.

The law provides that where funds resulting from acceptances are intended to produce merchandise for ultimate export, or where such moneys are to be applied to the purchase of goods to be shipped abroad from the United States, the acceptance privilege on the part of national banks can be invoked, which judiciously affords a broader scope to the application of the act and would seem extremely beneficial.

A trade acceptance differs from a sight draft or a promissory note in that it constitutes an acknowledgment of a debt for merchandise, and is payable at a definite time.

Sight drafts drawn for the collection of open-book accounts often tend to injure the credit of the buyer, whereas a properly drawn trade acceptance, payable at a bank, represents a purchase of merchandise, implies a credit standing on the part of the acceptor, and at the same time becomes an order on the buyer's bank to pay the obligation at maturity.

A promissory note, as everyone knows, is a promise in writing to pay, but it does not necessarily indicate the character of the underlying transaction. A trade acceptance, on the other hand, is an order to pay a merchandise debt, of which the instrument should give evidence on its face.

The use of the trade acceptance benefits in various ways the seller of goods, the buyer of goods, and the banker, which means that it strengthens to a considerable extent the banking business generally. The advantages of the trade acceptance to the seller may be briefly summarized:

1. It converts non-negotiable book accounts into acceptances which are negotiable and acceptable to the banks, thereby relieving the seller of the burden of carrying and financing his customers.

2. It encourages prompt payment at maturity.

3. It prevents the taking of unearned discounts and the abuse of sales terms.

4. It tends to check overselling, as credits will be more carefully scrutinized.

5. It places the seller in a stronger position when applying for banking credit.

The advantages to the buyer in its use are:

1. Improved credit standing with the seller because the acceptance indicates the buyer's intention to abide by the terms of the sale.

2. Better sales terms, as the seller is furnished paper which can be converted into cash.

3. Improved business methods due to the sense of responsibility for definite obligations.

4. A check on overbuying, inasmuch as the buyer's ability properly to finance his business will tend to control the volume of his purchases.

The advantages of acceptances to the banker aside from the indirect gain resulting from these reasons are:

1. The substitution of two-name paper representing a merchandise transaction for the one-name paper generally in use today. Trade acceptances come under the classification of commercial paper as defined in the National Bank Act, and are therefore not subject to the 10% loan limitation clause.

2. A much more complete understanding of his customer's business policies.

3. The special province of the Federal Reserve Banks for rediscounting, at favorable rates, trade acceptances maturing within 90 days. Therefore, member banks find it advantageous to have a supply of trade acceptances on hand, keeping in mind, of course, that the desirability of this class of paper will naturally depend upon the strength of both the seller and the buyer executing it.

The use of the trade acceptance is also of advantage to business in general, because it means:

1. The substitution of readily negotiable acceptances for non-negotiable book accounts.

2. Better and more conservative business methods.

3. Improved trade relations between buyer and seller.

From this it is evident that, as compared with single-name paper and accommodation paper, trade accept-

ances, at least under many conditions, are more desirable for the banker and should be encouraged. As one banker aptly remarks: "The sounder the country's credit, the better and safer is the banking business and the wider is the opportunity to extend foreign trade and increase banking profits. Therefore the trade acceptance should be encouraged, for it will help bring about these results, which are most desired."

CHAPTER VII

HOW TO HANDLE COLLATERAL LOANS

A BUSINESS man in a city of the Northwest approached his banker for a personal loan.

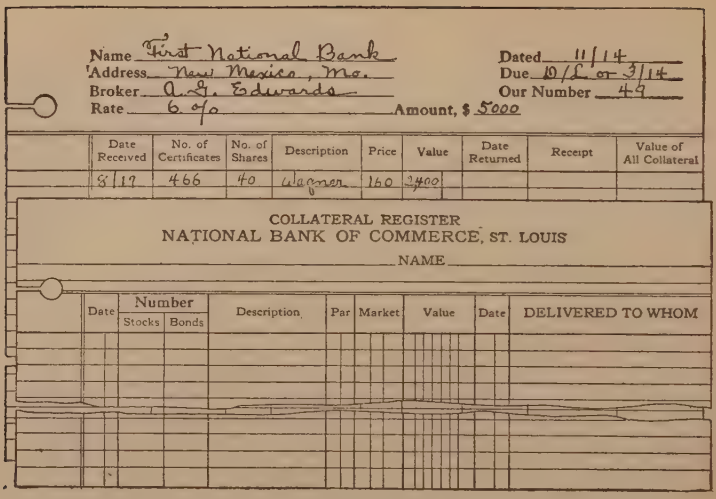
"What collateral?" asked the banker.

The customer winced and then turned red. "What's the matter?" he snapped, his voice expressing surprise. "Isn't my account satisfactory? I never dreamed you'd ask for any security. Don't you want to lend me the money?"

The banker expected the explosion and waited calmly for his visitor to finish.

"Sorry I've offended you," he replied. "But let me tell you why I asked that question and then I'm sure you will understand. In the first place, I want you to know that your account and relations with this bank are highly satisfactory. We would be sorry to lose your business. In fact, if you had asked for an extension of your firm's line of credit rather than for a personal loan, we doubtless would have granted your request without hesitation.

"But you are asking credit for yourself rather than for your business. Consider the difference. You probably are all right as a moral risk, but we can't lend on that alone. Too often in the past bankers have hit the toboggan in their careers by making personal loans, simply from the moral-risk point of view. We realize now that we must also have a reasonable assurance of a borrower's capacity to pay and tangible evidence that his resources are adequate.



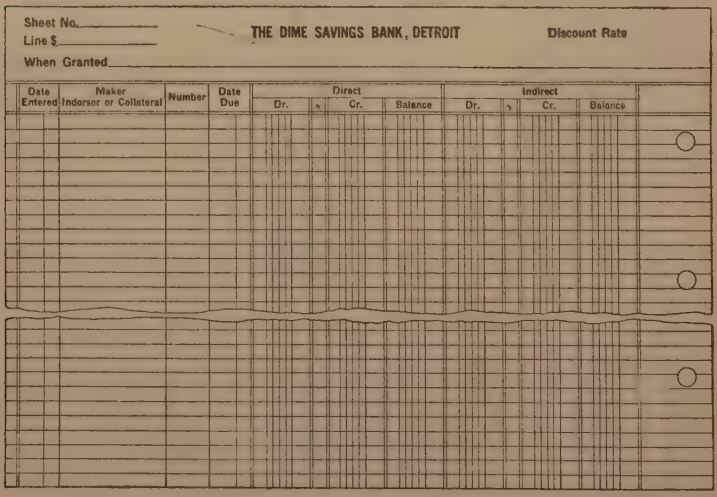
Name First National Bank
Address New Mexico, Mo.
Broker A. G. Edwards
Rate 6 o/o
Amount, $ 5000
Dated 11/14
Due 10/2 or 3/14
Our Number 49

Date Received	No. of Certificates	No. of Shares	Description	Price	Value	Date Returned	Receipt	Value of All Collateral
8/17	466	40	Wagner	160	2400			

COLLATERAL REGISTER
NATIONAL BANK OF COMMERCE, ST. LOUIS
NAME

Date	Number Stocks	Number Bonds	Description	Par	Market	Value	Date	DELIVERED TO WHOM

Figures 52 and 53: The upper form is for entries of collateral paper accepted from other banks, while the lower one is for registering customers' collateral notes. A Missouri bank uses these concise records.



Sheet No.
Line $
When Granted
THE DIME SAVINGS BANK, DETROIT
Discount Rate

Date Entered	Maker Indorser or Collateral	Number	Date Due	Direct Dr.	Direct Cr.	Direct Balance	Indirect Dr.	Indirect Cr.	Indirect Balance

Figure 54: This simple sheet for recording both the direct and indirect liability of customers serves a twofold purpose. It is adaptable for keeping track of any loan and can be used effectively in almost any bank.

"In other words, with the added requirements of the Federal Reserve System, we feel that it is best, both for you and for us, to require collateral for a loan, making the proposition satisfactory to you and safe for us. It makes you independent and keeps our lending 'liquid.' Therefore we both profit after all."

This merchant saw the point. He realized that the bank had only his character and business position as a basis for granting a loan. It had neither a statement of his personal responsibility nor security in case something happened to him. He therefore complied with the bank's request for security and went away, understanding better why more bankers are requiring collateral on loans. This is often a problem with bankers. They find it better business, however, in the majority of instances, to have tangible protection. All bankers recognize that demanding security is desirable because it means safer banking.

As the banker referred to afterward said: "Character loans may be ideal enough, but a bank cannot take chances any more. We want security, and then we know we are within the law and have nothing further to worry about."

Why collateral loans distinctly differ from ordinary, straight commercial loans is, of course, obvious to the banker. Once classified, however, it may be well to consider the various forms of collateral progressive bankers find most acceptable, and some of the best methods for handling them. Generally speaking, collateral comes under the following heads: (1) government bonds; (2) other "listed" bonds; (3) listed stocks; (4) farm mortgages; (5) grain and produce warehouse receipts; (6) other warehouse receipts; (7) real estate mortgages; (8) syndicate bonds; (9) time paper; (10) chattels; (11) accounts receivable. Real estate and farm-mortgage loans and warehouse and chattel loans will be discussed in later chapters. Here will be

described how ordinary collateral loans are most effectively handled after they have been accepted.

Regardless of whether a loan is classified as "call," "short term," or "long term," the routine of recording the collateral information, filing the various papers, and taking care of any other details is essentially the same. At the outset, after credit has been granted, the first item for consideration is, what interest shall be charged. Here is a point requiring careful analysis, and yet often it is not thoroughly gone into by the banker. Aside from the average balance carried by the customer, it is necessary to consider the value of the securities offered should it be necessary to realize on them without delay. No matter how sound any security may be, the alert banker will ask himself: "Could it be liquidated quickly?" Naturally if there is the slightest possibility that it could not be realized on without considerable delay, it would be proper to raise the interest rate, providing the loan has been passed. On the other hand, if the security could not be readily disposed of, the loan ordinarily should not be made.

The amount of margin allowed on acceptable security also is taken into consideration in naming a proper interest rate. For instance, if the bank accepts government bonds, the margin required above the amount of the loan may be exceedingly small. A comparatively low interest or discount may therefore be named as sufficient for the risk involved.

On the other hand, if a banker is dealing principally in one class of loans, farm mortgages, for instance, all of similar relative value per acre mortgaged, it may be disastrous to vary the rate under any circumstances. Many bankers have found that "one price" is safest and most practicable.

"We absolutely insist on one price to all, so far as interest is concerned," says an Iowa banker. "Many years ago I had an experience which taught me the

COLLATERAL REGISTER—THIRD NA

Name _____

Address _____

Register Number	Date of Discount	Maturity	Amount	Date of Payment	Number of Note or Certificate	Number of Shares	Date of Note	Maturity
31116	11/23-17	2/1		1/2-18				2/1

Insert III: The size of collateral register to use depends, of course, on how much detailed information the officers desire to have on the one sheet for quick inspection. One bank has found this looseleaf register of value in handling collateral loans fo borrower's name is entered at t to enter not only a complete accepted from the customer, b

.TIONAL BANK OF ST. LOUIS, MO.

Collateral Description	Price	Amount	Date Returned		Total Collateral	Total Indebtedness
3217 Ch. R.I. & Pac.						
Ew Corn 1086 bu	1.30	1411 80			1411 80	

regular customers. The loan, the amount, the date of maturity, and the date paid, he top. Below are columns as well as the total amount of the collateral and the total description of the collateral indebtedness incurred over any period. The illustration ut also the number of the shows how advances covered by bills of lading are handled.

fallacy of charging one customer more or less than another. A farmer came in to get a small loan of $75. The prevailing interest rate at that time was 7%, but he insisted on having it for 6%. I knew the man was good, and I wanted his business, so finally I let him have the money at 6%, on his promise to say nothing about it to anyone. About a month later another farmer came for a loan, insisting that he get it for 6%. He said that was what we charged another farmer, and he named the man who had been in some time before. I saw then the danger of having more than one price. We have never varied our rate since."

TESTED METHODS FOR HANDLING COLLATERAL THAT REDUCE CLERICAL EXPENSE TO A MINIMUM

With call loans, however, the rate often varies during the life of the loan, according to the fluctuation in the general market rate.

When the rate and other credit details have been decided on and the loan made, what is the simplest way to handle the collaterals? How shall it be registered?

A St. Louis bank has worked out a register that reduces the routine entries to a bare minimum. This form (Figure 52) shows the name of the borrower at the top and has spaces below for the convenient entry of the important details, including the date received, the description, the par and market value, the appraised value, the date of delivery and the name of the person to whom it is delivered whenever the note is taken up or the collateral borrowed. A small bank, particularly, may find this simple method not only adequate, but economical for time. So many banks have in the past used cumbersome registers, that it is well to emphasize the value of having the most simple time-saving record possible, without omitting any information.

Some banks find it desirable to record the facts about collateral somewhat more in detail. For instance,

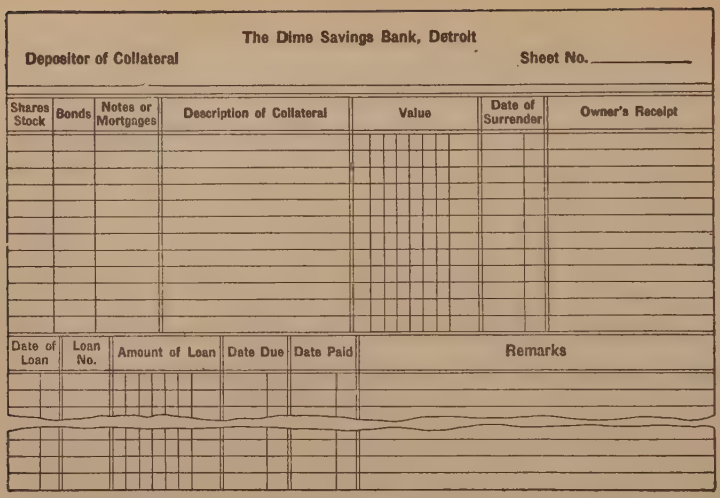


Figure 55: In one middle western bank the name of every borrower on collateral goes on a card like this, which serves as a comprehensive record of all of the loans and discounts as well as the security offered.

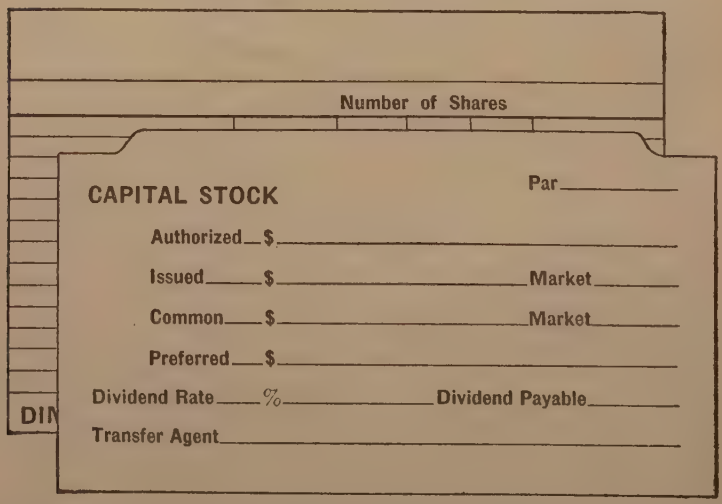
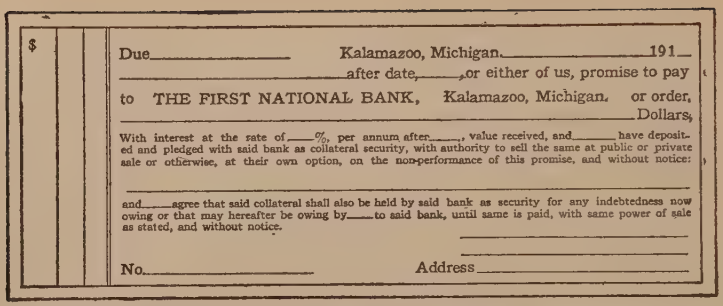


Figure 56: These cards enable a Detroit bank to keep tab on the stocks it holds as security. The front card is pink; behind it are white cards listing the borrower's name and the stocks he has given as security.

Insert III includes a column to list the total amount of the collateral separately and to show what the total indebtedness may be. Both of these forms, however, show how simply the collateral of any borrower may be tabbed. A form used for registering collateral on loans received from correspondent banks or discounted for the accommodation of customers is shown in Figure 53. You will notice at the top the name of the correspondent bank, the broker from whom the paper may have been purchased, and the rate of discount. The amount and the due date are included. Below are spaces for the usual details of the collateral and for recording the receipt of the paper when it is returned. The bank using these forms finds them most valuable in eliminating unnecessary work.

Still another bank in the Middle West saves time by recording both direct and indirect collateral information on the same sheet (Figure 54). That is, it notes whether the collateral is put up either by the maker or by the indorser, or by both. This form is simple and doubtless is adaptable to many banks. Notice that it can be used for any loan, whether with collateral or not. It covers, therefore, many uses. When collateral is entered, it goes in the second column. If a direct loan is made to a customer, the details are completed under the columns "direct." The amount lent, the payments made, and the balance due are entered. If the loan carries indirect liability, the last columns on the sheet are used. The discount teller can easily refer to more detailed information on each loan by noting the sheet number and the loan number, and by looking up the corresponding information on the individual card of each depositor of collateral.

The form (Figure 55) gives the bank officers an intimate history of every borrower on collateral. Notice how compact the card is. The officers of the bank, by using this card, can size up a customer in a



$

Due_____ Kalamazoo, Michigan._____191_

_____after date,_____,or either of us, promise to pay

to THE FIRST NATIONAL BANK, Kalamazoo, Michigan. or order,

_____Dollars,

With interest at the rate of____%, per annum after_____, value received, and_____have deposited and pledged with said bank as collateral security, with authority to sell the same at public or private sale or otherwise, at their own option, on the non-performance of this promise, and without notice:

_____

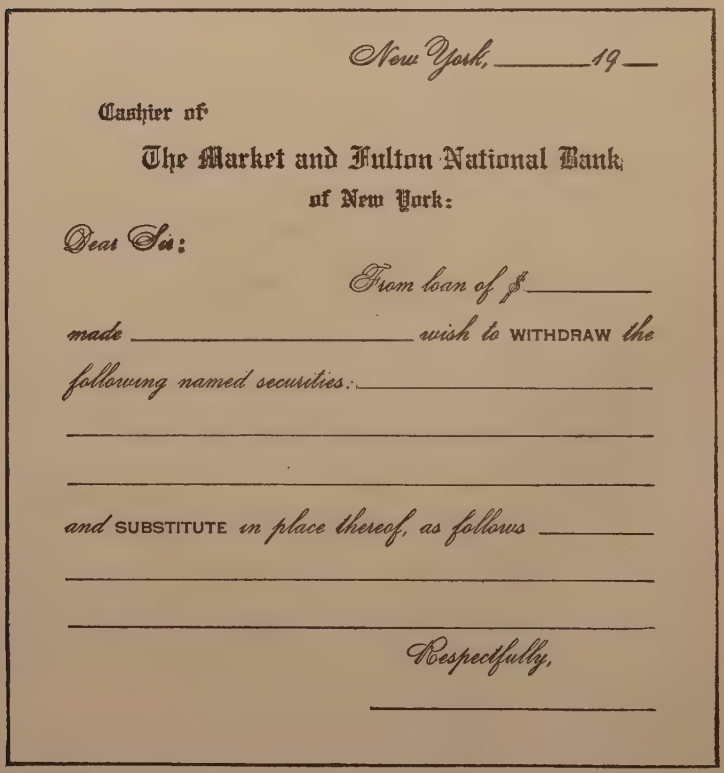
and____agree that said collateral shall also be held by said bank as security for any indebtedness now owing or that may hereafter be owing by____to said bank, until same is paid, with same power of sale as stated, and without notice.

_____

_____

No._____ Address_____

Figure 57: A Kalamazoo bank shortens its filing routine by printing its collateral note form on an envelop, in which is placed the security.



New York, _____ *19*__

Cashier of

The Market and Fulton National Bank

of New York:

Dear Sir:

*From loan of $*_____

made _____ *wish to* WITHDRAW *the*

*following named securities:*_____

_____

_____

and SUBSTITUTE *in place thereof, as follows* _____

_____

_____

Respectfully,

_____

Figure 58: Customers often wish to substitute or withdraw their collateral temporarily. One bank provides this application blank. In this way the discount teller keeps his records "up to the minute."

COLLATERAL SECURITIES.

DATE_____

LOAN NO.	WITHDRAWN	SUBSTITUTED

Figure 59: With this form the discount teller needs only a record of the loan number to enable him to transfer the changes to his other records.

New York, _____ *191* __

Received from THE MARKET AND FULTON NATIONAL BANK, of New York, the following named property, which is held by said Bank as COLLATERAL SECURITY

_____

_____

_____

and in consideration thereof ____ HEREBY AGREE TO HOLD SAID PROPERTY **IN TRUST** *for the following purposes, viz:* _____

_____

_____

with the understanding that _____ *will deliver to said Bank the* _____

_____

as soon as received; the intention of this arrangement being to protect and preserve unimpaired, the lien of **THE MARKET AND FULTON NATIONAL BANK OF NEW YORK** *on the above named property.* _____

_____

_____

*Amount of Loan $*_____

Date of Loan _____

Figure 60: Customers who borrow their collateral from this bank are required to sign a receipt like that illustrated. The definite record protects to the bank, and also tends to make borrowers more careful.

moment. It saves them hours, during the course of the week, in looking up any information regarding collateral held. So that they may be available for immediate reference, these cards are filed alphabetically in cases just adjoining the discount teller's cage and near the lending officers' desks. Steel cages are used so that they do not have to be moved in and out of the vault.

Next to this file is located the additional file of information on the market value of all securities held as collateral by the bank. This file is made up alphabetically and the key cards bear the name of each corporation, the stock of which has been accepted as security. These cards, pink in color, contain all the information about the stock issues of each concern (Figure 56), including the market rate at which shares are selling. The figures are changed whenever any material fluctuation occurs in the stock itself. Behind this main card of each corporation are filed white cards carrying the name of each borrower and the number of shares he has given the bank as collateral. At times this is found to be an important mass of information. Suppose, for instance, that there arises an unexpected condition which suddenly depreciates by many points the market value of a certain stock. Instantly this file tells the officers just what borrowers are holding the stock. If the margin above the loans made now seems too narrow, each customer, whose collateral is thus affected, can be notified to furnish additional security. Thus the important routine is handled almost automatically. As a matter of fact, it is necessary to keep daily tab on all collateral, and some banks use such a file to cover all loans of this sort.

Collateral itself is filed away alphabetically in the vault of the bank. Envelops are used in some banks, although a western bank has found a wallet style of enclosure most practical. It discarded envelops because they fill up quickly. The wallet is of the expan-

$_____ Detroit, Mich., _____ 191____

_____ after date, for value received _____ promise to pay to the order of

The National Bank of Commerce of Detroit

_____ DOLLARS

at The National Bank of Commerce of Detroit, Michigan, with interest at the rate of _____ % per annum, after _____.
The undersigned having deposited and pledged with the said Bank as collateral security for the payment of this note, and any other liabilities, absolute or contingent, present or future, of the undersigned to said Bank, the following property owned by the undersigned, viz.:

_____ the value of which is now $_____
_____ " " " " " " $_____
_____ " " " " " " $_____
_____ " " " " " " $_____

which property with any other property hereafter deposited in substitution therefor, or in addition thereto, the holder of this note, in default in payment thereof, is authorized to sell at public or private sale, and at its option to purchase at such sale, and to apply the proceeds in payment of this note and the balance upon such other of said liabilities as the holder may elect. In case of decline in the value of the securities at any time pledged for any of the above liabilities, the Bank shall have the right in its discretion, to call for additional security, and upon failure to furnish the same, may declare the principal of said note due and payable forthwith, and may sell said collateral property and apply the proceeds in the manner above provided. It is further agreed that the Bank shall have the right to hold and apply, at any time, its own indebtedness or liability to the maker hereof, as security for or in payment of any liability due or to become due from the maker hereof.

_____

Address _____

Figure 61: This note has proved an unusually valuable time saver as it provides space for listing collateral accepted and its value.

Name *H. M. Nay*

Loan No.	Due	Amount	Shares	Description of Collateral	Market Par	Market @	Market Value	Date Surrendered	Owner's Receipt
208	4/6	200 00	1	Henderson Iron	100		290	5/6	H. M. Nay
305	6/5	500 00	8	Chicago Foundry	100		90	8/3	H. M. Nay
380	9/4	600 00	10	Perfection Steel	100		95	9/4	H. M. Nay
392	9/6	200 00	5	Chicago Foundry	100		92	9/5	H. M. Nay

Figure 62: Here is a card index for recording the collateral accepted from each borrower. Provision is made for all details regarding the securities and for the customer's signature when collateral is returned.

National Bank of Commerce

TEMPORARY RECEIPT FOR SECURITIES

I ACKNOWLEDGE RECEIPT OF SECURITIES AS FOLLOWS, TO BE RETURNED TO THE VAULT CUSTODIAN TO-DAY:

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____ 19_____

N.B.—SECURITIES TAKEN OUT ON THIS RECEIPT MUST BE RETURNED TO THE VAULT ON THE DAY THEY ARE TAKEN.

Figure 63: One bank takes a receipt like this from a borrower who desires his security for a few hours only. He affixes his signature indicating that he will return all the papers to the bank the same day.

National Bank of Commerce

Securities were this day deposited or withdrawn from the vaults as follows

_____ 19__

	NUMBER OF		NAME OF SECURITY	Par Value	APPLICABLE		FOR WHOSE ACCOUNT	DEPOSITED BY (INITIALS)	WITHDRAWN BY (INITIALS)	REMARKS
	BONDS	SHARES			LOAN NO	SAFE KEEPING				

Correct:

_____
VAULT CUSTODIAN

Correct:

_____
ASST. CASHIER

Figure 64: When an officer of this bank wants to know what changes have been made in any customer's security, he has only to refer to this daily record of collateral kept by the vault custodian.

sion type and an extra facing of the front frames a removable card. The name of the owner of the collateral and other necessary information is kept on the card. When the loan is paid, the maker signs the card as a receipt for the surrendered collateral. This card is filed to protect the bank, should any question arise regarding the disposition of the collateral. The wallet then is ready for use again, a new card being made out and inserted in front. A Kalamazoo bank saves in routine by having the note form printed on a large envelop (Figure 57). The security is enclosed within. Thus, the whole transaction is filed away in one place.

WHY IT IS NECESSARY TO EXERCISE SOUND JUDGMENT IN ACCEPTING COLLATERAL

It is necessary always to keep track of any substitutions or withdrawals of collateral by a customer. There are times when a borrower wishes to secure the bank by depositing certain stocks or bonds only temporarily. Later he wants to replace the collateral with other kinds. When this is permissible, one bank uses a form like Figure 58 which the customer signs. The discount teller keeps a record of these substitutions on the form shown in Figure 59. By the loan number he can easily make from this list the proper changes on all of his records.

When a trustworthy customer borrows his collateral for some purpose, he signs a receipt (Figure 60). This protects the bank from probability of any loss.

A Detroit bank has worked out a unique and satisfactory system for keeping tab on all securities. An expert woman clerk is employed who acts as vault custodian. She has a separate cage for her records and is responsible for all collateral that comes in or goes out of the bank. Each customer who borrows on collateral, signs a simple but explicit note form which lists the securities accepted by the bank (Figure 61). An

NATIONAL BANK OF ST. LOUIS

LIST OF COLLATERAL NOTES MATURING.
PLEASE SUBSTITUTE OTHER NOTES TO TAKE THEIR PLACE.

NUMBER	DATE	NAME	DUE	AMOUNT	

Figure 65: A western bank sends this advance notice to its customers listing all of their collateral notes which are about to mature.

$ New York, _____ 191__

On Demand for value received _____ promise to pay to
THE MARKET AND FULTON NATIONAL BANK OF NEW YORK,
or order at its Banking House, in funds current at the New York Clearing House.
_____ Dollars,

with interest at _____ % per annum; having deposited with said Bank, as collateral security for the payment of this or any other liability or liabilities of _____ to said Bank, due or to become due, or that may have been heretofore or may be hereafter contracted.

upon the following conditions, viz: That **The Market and Fulton National Bank** may from time to time call for such additional security as it may deem proper, and, on failure to respond forthwith to such call, or on the non-performance of this promise, _____ hereby give to said Bank, its President or its Cashier full power to sell said collateral security, or any other collaterals that may have been substituted therefor or added thereto, at public or private sale without notice and without advertising the same, and to apply the proceeds of any such sale to payment of this or any other indebtedness due or to become due to said bank by _____ at the time of said sale, returning the overplus, if any, to the undersigned.

_____

Figure 66: This is an example of the collateral note form which an eastern bank has found practical. It illustrates how completely the legal description of a transaction can be covered on a small sheet.

$_____ St. Louis, Mo., _____ 191___

_____ after date, I promise to pay to

The National Bank of Commerce in St. Louis, or order, at Banking House of said Bank, at St. Louis, Mo.,

_____ DOLLARS,

for value received, with interest at the rate of eight per cent. per annum from maturity. Demand for payment, protest and notice of dishonor are hereby waived by all parties.

_____

_____

_____

Having Executed a promissory note, dated at St. Louis, Mo., on the _____ day of _____ 191___ for $_____ payable to The National Bank of Commerce in St. Louis, or order, _____ after date, with interest from maturity at the rate of eight per cent. per annum; and being desirous of securing the same, and all my other liabilities, actual and contingent, to said Bank, or its assigns, now existing or which may hereafter arise, I do hereby pledge to said Bank and its assigns, as collateral security for said note and said other liabilities _____

_____

_____

_____

_____

_____

_____

_____

_____

_____

and agree to give additional security to keep up the present margin, whenever the market or real value of the above collateral shall decline, and within twenty-four hours after receipt of notice so to do from the holder of this note or other of said liabilities. I hereby authorize said Bank, its assigns, or the holder of this note or any of my said liabilities, to cause any certificates of stock which may at any time be pledged hereby to be transferred to its or their name upon the books of the corporation issuing the same, and this shall be full power and authority to such corporation to make such transfer. In default of payment of said note, or interest thereon, or other of said liabilities, or interest thereon, when due, or in default of my giving such additional security, when so notified, or in case of my suspension, failure, or insolvency, or the commission of any act of insolvency or bankrupicy on my part, said Bank, its successors, or assigns, shall, in addition to the foregoing collateral, have a lien on all notes, drafts, bills receivable, moneys, or other personal property, held by or in transit to said Bank, its successors or assigns, in my name, or for my account, the same to be deemed to have been assigned to said Bank, its successors or assigns, as additional collateral for the payment of said note and all other of my said liabilities, actual and contingent, and said Bank, its successors or assigns or the holder of said note or any such liability, in any such event shall have the right to acquire possession of any personal property owned by me or in which I have an equity or interest, and hold the same as a pledge hereunder to secure payment of said note and other said liabilities, the lien on which shall relate back to the date hereof, and upon any such default being made, or upon the happening of any such event, I do hereby authorize said Bank, any of its officers, its successors or assigns, or the holder of this note or any of said liabilities, to confess judgment for me for the amount due hereon and to sell or cause to be sold, any or all of said collaterals, or any substitutes therefor or additions thereto, at public sale, upon such notice, at such place and on such terms as said Bank, any of its officers, its successors or assigns, or the holder of any of said liabilities, may deem proper, or at the option of said Bank, any of its officers, its successors or assigns or the holder of any of said liabilities, at private sale, without notice to me or the public, and to apply the proceeds, first to the payment of the expenses incurred by said sale, next to the discharge of my liabilities herein mentioned. Said Bank, its successors or assigns, or the holder of this note or any of such liabilities, to have the option of application of any or all of said property and collaterals before sale, or the proceeds thereof after sale upon this note, or any, either or all of said liabilities as it or they may elect. Any surplus left shall be paid to me. If the proceeds of such sale are not sufficient to pay this note and all of my liabilities hereby secured, I agree to pay the balance on demand. In case of a sale of said collaterals, said Bank, its successors or assigns or the holder of this note or any liability hereby secured, may become the purchaser thereof, without any right of redemption on my part. Neither the Bank, its successors or assigns, or the holder of this note or any liability hereby secured, shall be required to take any action to protect the collateral securing the payment of the same, or held liable for failure to preserve said collateral, or the liability of any party thereon. The Bank, its successors or assigns, or the holder of this note shall be privileged to sell or otherwise negotiate this note and contract, and deliver the same, together with all collateral pledged hereunder to any party buying or negotiating for the same, and in such event shall not be required to deliver said collateral, to the pledgor, or otherwise account therefor. In case payment of this note is not made at maturity and the same is placed in the hands of an attorney for collection, I agree to pay ten per cent. additional on the principal and interest to the holder hereof as attorney's fees. Notice or demand delivered to, made at, or mailed to my post office address, last known to said Bank, its successors or assigns or the holder of said note or any such liability shall be deemed sufficient notice or demand, whenever required or authorized by this note or contract.

_____

_____

Figure 67: In contrast to the shorter form in Figure 66, here is a collateral note which goes deeper into detail and covers all legal aspects of the transaction. It also serves well its purpose, in that it covers every possible question which might arise in handling a loan of this sort

individual card index of each loan (Figure 62) is kept as a quickly accessible record for all the officers.

Should any borrower wish to obtain any of his securities temporarily, the vault custodian, who, of course, has been carefully trained, requires him to sign a special receipt which stipulates that the papers are to be returned the same day they were given out (Figure 63). Every day the custodian makes out a record of all securities received or withdrawn. Here is a sheet of information important to any officer desiring to investigate the collateral for any reason.

This form (Figure 64) is also checked up and signed by an assistant cashier under whom the vault custodian works. Some banks allow too much freedom with collateral. Careful banks recommend precautions of this sort no matter how reliable customers are. They consider it simply good business.

When collateral notes which it holds approach maturity, a St. Louis bank notifies its customers to replace them, by sending out several days ahead of time the notice reproduced in Figure 65.

Progressive banks carefully provide for the possibility of having to realize on the collateral held to secure any loan. For this reason notes are specially worded to cover all contingencies. Some of the most satisfactory forms gathered in the course of a country-wide investigation are shown in Figures 66 and 67. It will be observed how thoroughly every detail is covered.

Briefly may be stated here the difference in routine necessary for the varied kinds of security. If government bonds are accepted, no account need be taken, ordinarily, of market fluctuation. The fewest records, according to most bankers, thus are kept. Listed stocks and bonds also require less watching than those unlisted. Warehouse receipts on grain or produce usually are considered so gilt-edged, where the margin is liberal, that no attention may be necessary beyond

registering the information. Other warehouse receipts on material or finished product, however, require perhaps the same routine as stocks. Syndicated bonds usually have the desirable backing of several banks and may be gilt-edged as security. Time paper is likely to require considerable routine if it is accepted direct, as from an automobile dealer on time sales to his customers. This, however, will be more fully covered in Chapter VIII.

Few conservative banks accept any chattels as collateral. Rarely, therefore, do they have such security on file. A progressive bank does not accept ordinary chattels as security unless to cover, in an emergency, what otherwise might result in a total loss.

Finally, the least danger of loss and the least expenditure of time and costs is obtained by handling collateral loans most effectively, as suggested in this chapter. This means making the routine thorough, yet concise, and it means also keeping the records so that safety is assured without "red tape."

CHAPTER VIII

AUTOMOBILE, WAREHOUSE, AND PRODUCE LOANS

WITHIN three years a Cleveland, Ohio, bank has built up a list containing the names of between 500 and 600 good customers by making individual loans on small pleasure cars.

"It is impossible to estimate," says the officer in charge of this department, "the publicity and increased business gained from handling these loans under our plan. Not only have we won the several hundred worth-while accounts, but we have gained valuable general publicity also from the free advertising these automobile owners have given us."

Here is one instance, which will be described more in detail presently, of how bankers are taking advantage of the opportunities for more business in automobile paper, just as many of them are doing profitable general lending on warehouse receipts covering all kinds of produce and varied commodities. Therefore in this chapter will be considered the best methods and routine followed by a number of banks in handling automobile, warehouse, and produce loans.

Undoubtedly, bankers have been slow to make loans of any description on motor cars, due probably in part to the recklessness of people, who, in years gone by, mortgaged their homes to buy pleasure cars, and to the lack of a definite market in which to dispose of machines taken on a chattel note foreclosure. Bankers, of course, are not in the business of selling used cars. On the other hand, as pointed out at the beginning of this

chapter, certain types of loans to individuals, experience shows, rarely result in a "come-back." Should there be a foreclosure, there is a ready market usually for a resale of the machine.

The Cleveland bank felt safe in lending on an easily marketable small car and accordingly entered the field. The great majority of applicants came from other banks. As a result, this institution gained rapidly a number of medium-sized, but profitable accounts.

Each loan is made on a chattel mortgage basis. If a customer wants to pay the entire loan in 90 days, he makes a substantial payment down and pays the balance when the note matures. Otherwise, payments are received in regular instalments averaging from $50 to $75 a month. These are entered each month on the back of the note.

The applicant first is given an application blank to fill out (Figure 68). This form is probably unique as loan applications go in the banking field. It immediately invites the visitor to open an account, and it gets results. All important questions which the bank desires answered are set forth on the sheet, including the amount of the mortgage on the applicant's home, if any; the net worth of his business; from whom he intends to buy his car; the loan required; the details of the payments; and so forth.

From this information the lending officer is enabled to form a fair estimate of the reliability and financial responsibility of the applicant. But he asks any further personal questions necessary to assure himself that the borrower is a good risk. This does not mean necessarily that the applicant must have his own business, for he may be a lawyer, or a professional man in some other line; or he may be a progressive salaried man. But if the facts show a tendency to thrift and to the maintenance of a well-balanced program for business and pleasure, the loan usually is made.

After the application has been passed, the borrower is required to sign a note of the ordinary sort, with the stipulations added regarding the amount and the date of each payment. A chattel mortgage covering the amount lent is also issued against the car and the transaction is registered like other collateral loans. The usual rate of interest is charged.

The bank lends only an amount consistent with sound financial methods so that should the borrower default, the loan will be fully covered by the market value of the car. For instance, a business man may wish to pay $500 for a small car, but he may not want to tie up that much cash. The bank, if it considers him a good risk will lend him, probably, about $300. Every loan has to be judged on its own merits.

"We are enthusiastic about this automobile loan department," says the bank officer in charge. "We, of course, furnish money only to men we consider of mature and careful judgment. These men come to us and show us just why they want a car. They may want to go out into the country Sundays and take their families—all of which is laudable, indeed.

"Just think what it means to one of these applicants, when we help him by lending him part of the purchase money. He goes out of our bank all primed to advertise us from the housetops. He'll boost us every time he gets a chance. We've gotten a good many unsolicited accounts this way.

"We confine our operations to small marketable cars only and our risk is negligible compared with the business and publicity we get out of it."

Investigation shows that few banks so far have taken active steps to lend to individuals either on pleasure cars or motor trucks. Circumstances have tended, as previously suggested, to turn bankers away from this class of paper except under well-defined restrictions. One great drawback has been the development of sales

*Name*_____

*Address*_____

For the purpose of procuring a loan to enable the undersigned to buy a ____ car, the following statement of affairs and financial standing is made.

Business

Now bank with

Will open with you

Own home worth

Home mortgaged for

With

Net worth of business

Buy from

Style of car

Loan required

Payable as viz:

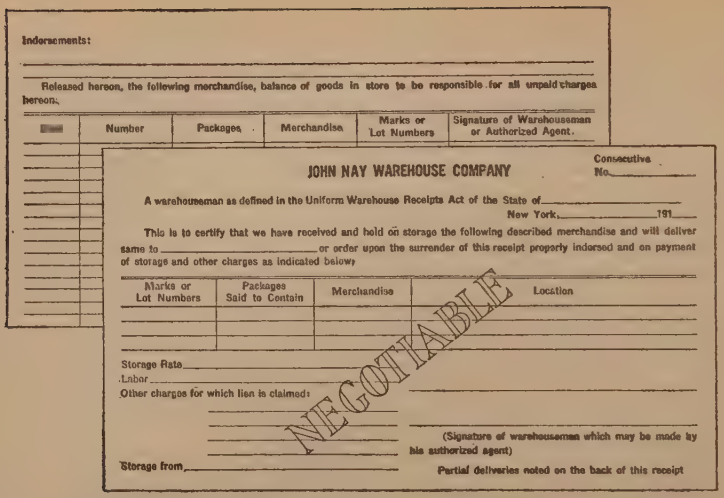
Serial Number

*Cleveland, O.,*_____ *191*____

To the best of my knowledge and belief the above is a true statement.

*Signature*_____

Figure 68: Probably this form is unique. It is one bank's application blank for customers who want to borrow money to purchase a low-priced automobile. The bank, of course, takes a chattel mortgage on the automobile and a large amount of profitable business has resulted.



Indorsements:

Released hereon, the following merchandise, balance of goods in store to be responsible for all unpaid charges hereon:

Number	Packages	Merchandise	Marks or Lot Numbers	Signature of Warehouseman or Authorized Agent.

JOHN NAY WAREHOUSE COMPANY

Consecutive No.

A warehouseman as defined in the Uniform Warehouse Receipts Act of the State of

New York, 191

This is to certify that we have received and hold on storage the following described merchandise and will deliver same to or order upon the surrender of this receipt properly indorsed and on payment of storage and other charges as indicated below:

Marks or Lot Numbers	Packages Said to Contain	Merchandise	Location

Storage Rate

Labor

Other charges for which lien is claimed:

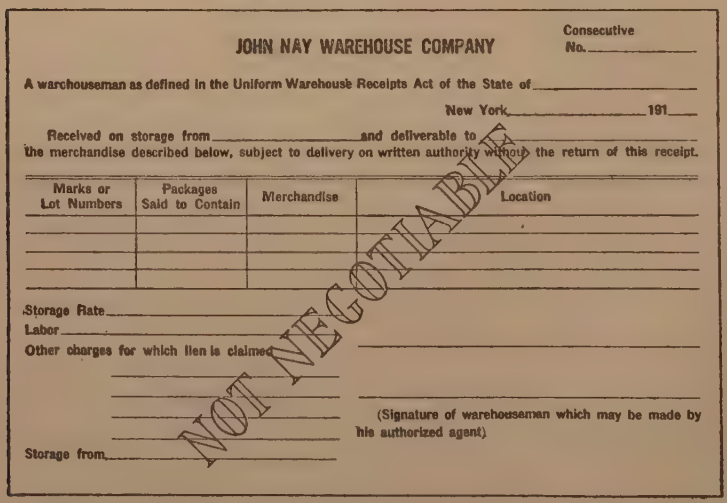
Storage from

(Signature of warehouseman which may be made by his authorized agent)

Partial deliveries noted on the back of this receipt

NEGOTIABLE

Figure 69: This type of negotiable warehouse receipt is acceptable to bankers who extend credit to customers on security of that sort. On the back of the receipt are spaces for all the merchandise records.



JOHN NAY WAREHOUSE COMPANY

Consecutive No.

A warehouseman as defined in the Uniform Warehouse Receipts Act of the State of

New York, 191

Received on storage from and deliverable to

the merchandise described below, subject to delivery on written authority without the return of this receipt.

Marks or Lot Numbers	Packages Said to Contain	Merchandise	Location

Storage Rate

Labor

Other charges for which lien is claimed

(Signature of warehouseman which may be made by his authorized agent)

Storage from

NOT NEGOTIABLE

Figure 70: Here is the usual style of non-negotiable warehouse receipt, which does not permit the banker to force collection on a loan should the borrower default. Bankers fight shy of it because it is "non-liquid."

on instalments, which means that automobile collateral is constantly changing in value as payments are made.

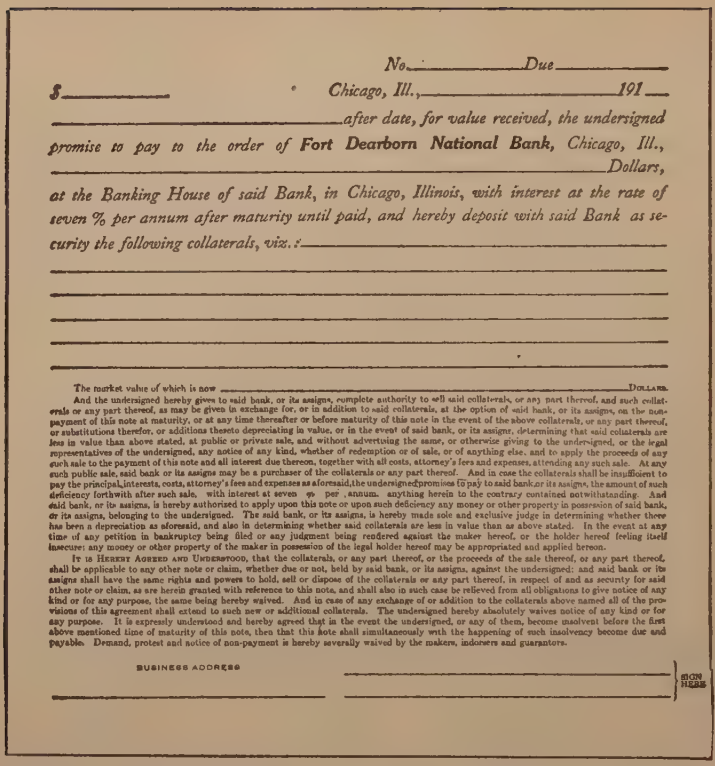
Notwithstanding this, some banks have found motor car paper attractive, as the experience of the Cleveland and other institutions shows. Some smaller city banks lend to automobile dealers just as they do to other business men on an open line of credit. A middle western banker finds this practicable. He knows the dealers and their field. He knows their financial responsibility and their ability to sell. Consequently when a dealer tells him a carload of automobiles is on the way and he wants $10,000 to pay for them he gets the money on a 60- or 90-day note.

HOW WIDE-AWAKE BANKERS ARE PROFITING BY MAKING LOANS ON WAREHOUSE RECEIPTS

While this procedure is common to a number of large city banks, yet the tendency is very strong toward lending largely on warehouse receipts. Both negotiable and non-negotiable forms are shown in Figures 69 and 70, but the bank, of course, is interested only in the negotiable.

When a dealer orders a shipment of cars from the factory, under this plan, they are placed in a bonded warehouse on their arrival and remain the property of the manufacturer until the dealer pays for them with money advanced in part by the bank. As security for the loan he turns the warehouse receipt for the cars over to the bank, which usually lends around 70% of the cost value of the shipment. Loans of this character are generally made on an ordinary collateral note form (Figure 71).

Whenever the dealer sells a car the bank has him sign a trust receipt, which is described later in the chapter, and gives him access to the warehouse to remove the model wanted. As soon as he has the money covering the sale he turns the cost portion of it over



No. _____ Due _____

$ _____ Chicago, Ill., _____ 191__

_____ after date, for value received, the undersigned promise to pay to the order of **Fort Dearborn National Bank,** Chicago, Ill., _____ Dollars,

at the Banking House of said Bank, in Chicago, Illinois, with interest at the rate of seven % per annum after maturity until paid, and hereby deposit with said Bank as security the following collaterals, viz.:

The market value of which is now _____ Dollars.

And the undersigned hereby gives to said bank, or its assigns, complete authority to sell said collaterals, or any part thereof, and such collaterals or any part thereof, as may be given in exchange for, or in addition to said collaterals, at the option of said bank, or its assigns, on the non-payment of this note at maturity, or at any time thereafter or before maturity of this note in the event of the above collaterals, or any part thereof, or substitutions therefor, or additions thereto depreciating in value, or in the event of said bank, or its assigns, determining that said collaterals are less in value than above stated, at public or private sale, and without advertising the same, or otherwise giving to the undersigned, or the legal representatives of the undersigned, any notice of any kind, whether of redemption or of sale, or of anything else, and to apply the proceeds of any such sale to the payment of this note and all interest due thereon, together with all costs, attorney's fees and expenses, attending any such sale. At any such public sale, said bank or its assigns may be a purchaser of the collaterals or any part thereof. And in case the collaterals shall be insufficient to pay the principal, interests, costs, attorney's fees and expenses as aforesaid, the undersigned promises to pay to said bank or its assigns, the amount of such deficiency forthwith after such sale, with interest at seven % per annum, anything herein to the contrary contained notwithstanding. And said bank, or its assigns, is hereby authorized to apply upon this note or upon such deficiency any money or other property in possession of said bank, or its assigns, belonging to the undersigned. The said bank, or its assigns, is hereby made sole and exclusive judge in determining whether there has been a depreciation as aforesaid, and also in determining whether said collaterals are less in value than as above stated. In the event at any time of any petition in bankruptcy being filed or any judgment being rendered against the maker hereof, or the holder hereof feeling itself insecure; any money or other property of the maker in possession of the legal holder hereof may be appropriated and applied hereon.

It is Hereby Agreed and Understood, that the collaterals, or any part thereof, or the proceeds of the sale thereof, or any part thereof, shall be applicable to any other note or claim, whether due or not, held by said bank, or its assigns, against the undersigned; and said bank or its assigns shall have the same rights and powers to hold, sell or dispose of the collaterals or any part thereof, in respect of and as security for said other note or claim, as are herein granted with reference to this note, and shall also in such case be relieved from all obligations to give notice of any kind or for any purpose, the same being hereby waived. And in case of any exchange of or addition to the collaterals above named all of the provisions of this agreement shall extend to such new or additional collaterals. The undersigned hereby absolutely waives notice of any kind or for any purpose. It is expressly understood and hereby agreed that in the event the undersigned, or any of them, become insolvent before the first above mentioned time of maturity of this note, then that this note shall simultaneously with the happening of such insolvency become due and payable. Demand, protest and notice of non-payment is hereby severally waived by the makers, indorsers and guarantors.

BUSINESS ADDRESS _____

SIGN HERE

Figure 71: This collateral note form is for customers who want to borrow from the bank on warehouse receipts covering goods they have purchased. Often these loans are highly profitable and reasonably safe.

Barnes and Coleman

When Deposited	Number of Document	Description of Collateral	Denomination	When Withdrawn	Price	Value	Loan
10/17	2459	Hayes Warehouse	110 cs. Eggs		38	15 04 80	8 00 00

Figure 72: This is the way the discount teller of an Illinois bank keeps a record of all warehouse loans—a card for each borrower.

NO. _____ DUE _____ 191____ $ _____

CHICAGO, ILL., _____ 191____

_____ *after date* _____ *promise to pay to the order of*

_____

at their office _____ *DOLLARS*

for value received, with interest at the rate of _____ *% per annum, after* _____ *having deposited with said Bank as collateral security, for payment of this or any other liability or liabilities of* _____ *to the legal holder hereof, due or to become due, or that may be hereafter contracted or existing, howsoever acquired by said legal holder, the following property, viz.:*

_____

_____

_____

_____

_____

_____

The market value of which is now $ _____ *; with the right to call for additional security should the same decline; and on failure to respond, this obligation shall be deemed to be due and payable on demand, with full power and authority to sell and assign and deliver the whole of said property, or any part thereof, or any substitute therefor, or any additions thereto, at any Brokers' Board, or at public or private sale, at the option of said legal holder, or its assigns, and with the right to be purchasers themselves at such Brokers' Board, or public sale, on the non-performance of this promise, or the non-payment of any of the liabilities above mentioned, or at any time or times thereafter, without advertisement or notice. And after deducting all legal or other costs and expenses for collection, sale and delivery, to apply the residue of the proceeds of such sale or sales so to be made, to pay any, either or all of said liabilities, as said legal holder shall deem proper, returning the overplus to the undersigned. In case of the insolvency of the undersigned, any indebtedness due from the legal holder hereof to the undersigned may be appropriated and applied hereon at any time, as well before as after the maturity hereof.*

Address _____

_____ _____

Figure 73: When a customer of a Chicago bank wants to borrow on warehouse receipts covering purchases of produce, he is given a note like this to sign. A single line is left blank for the name of the payee.

TRUST RECEIPT

THE NATIONAL PRODUCE BANK
OF CHICAGO

Chicago, _____

PLEASE DELIVER TO BEARER THE FOLLOWING DESCRIBED PROPERTY which the undersigned hereby agrees to hold in trust for you (being your agent in handling said property) to be returned, or satisfactorily accounted for by 3 O'CLOCK P. M. TO-DAY, viz:

_____

_____

_____

_____

_____

_____

N. B. This order must be signed by the customer or his attorney.

Figure 74: When a borrower on warehouse receipts wants to remove a portion of his goods he signs a trust receipt like this to protect the bank.

to the bank to cover that percentage of the loan. In many smaller cities, bankers have not availed themselves of this opportunity for business, even where responsible warehouses are located. Although some bankers object to the plan, it is meeting with much favor in a number of communities.

Often the manufacturer arranges to send a bill of lading attached to a draft through the dealer's bank, and this facilitates putting the warehouse loan through quickly. Many dealers find this a convenient way to buy their cars. In fact, the evidence of the bill of lading showing that the dealer actually has cars of a certain value consigned to him is sufficient for some banks to advance the money to pay for them without the usual warehouse receipt. The dealer, of course, must have evidenced his responsibility.

For various reasons there has been comparatively small demand up to the present time for loans to individual business men on motor trucks. In the first place, dealers' terms usually are attractive, as payments extending over a fairly long term are allowed. In the second place, business houses investing in motor trucks often have a sufficient line of credit to go to the bank and borrow on a straight commercial loan the amount they need. A third reason is that many banks have not desired to take up this question, but have preferred to let financing companies handle motor truck loans.

However, progressive banks all over the country are gradually taking from dealers the motor truck instalment paper of their customers. An Illinois bank regularly lends money to its dealer depositors on the instalment notes of their customers which it accepts as ordinary indorsed collateral. Not only does it accept this paper, but it undertakes to collect it.

The discount teller keeps tab on the notes as they fall due just as he does on any other paper. For this pur-

pose he lists all the notes on a card of letter-file size (Figure 72) under the name of the dealer. He then cross-indexes each dealer's name in a date book which he keeps on his desk. For every note due on each card an entry to correspond is made in the date book. In this way all due notes are followed up easily at one time and due notices sent out systematically.

If the maker of any note defaults, the customer is required to substitute other collateral or take it up by giving a check on his account. When collections are made the amounts are applied on the customer's note. As motor trucks are usually sold to responsible buyers, the bank actually is doubly protected in these loans. It has the indorsement and the backing of the retail seller and also the signature of the buyer or maker of each instalment note.

The cashier of a small city bank, which lends to dealers on the bills receivable of their customers, says that he makes it a point to accept paper of this sort only when he considers the makers of fairly good reputation. In this connection he says:

"We are discounting, to quite a large extent, notes given to dealers by men of good standing for the purchase of commercial motor cars."

Apparently the tendency to handle loans on motor trucks in one way or another is increasing among progressive banks, and the banker who pioneers in all of these plans to get a share of this business may find it as profitable, if carefully restricted, as others have. At least the method of advancing money on warehouse receipts to help dealer customers seems to be growing in popularity.

This brings us to warehouse loans of a more general nature—in fact, the whole gamut of commodity and produce loans, all of which come under this head. From a practical standpoint they are handled similarly to warehouse loans on automobiles.

Received in Trust from the Fort Dearborn National Bank of Chicago.

_____

_____

_____ which _____ hereby agree to hold for account of the said Bank and subject to its order for the special purpose only of

_____

_____ hereby acknowledge _____ to be bailee of said property for

_____

said Bank, and to return it, or proceeds thereof to said Bank on _____

_____

Chicago, _____ 191__

_____

Figure 75: Here is a slightly different trust receipt for goods covered by a warehouse receipt, when removed from storage by the borrower. This is simply legal routine enforced to safeguard the bank's loans.

Eggs

Bonds		Market	Date
	Price and Company		
	J. A. Hanford		
	Keene & Robinson		
	George Walker		
	Borden, Hayes and Co.		

Figure 76: In order to keep in touch with the market and know just what kinds of produce its "warehouse receipt" customers borrow on, one bank keeps an alphabetical "produce" card record like this one.

A dealer in eggs, for instance, buys a hundred cases and the bank advances possibly 80% of their value on a warehouse loan. This means simply that, when the goods are received, the dealer pays for them with the help of a loan from the bank. He in turn protects the bank by turning to it a bonded warehouse receipt for the eggs. This acts, in fact, as collateral. As with the automobile dealer the ordinary form of collateral note (Figure 73) is used. One bank distinguishes between demand and time paper by printing one on blue paper and the other on white. This plan has proved effective.

HOW ONE BANK KEEPS ON A SINGLE CARD THE RECORD OF EACH WAREHOUSE LOAN

Information such as the name of the warehouse, the number of the receipt, and the nature of the collateral, is entered on the blank spaces provided and, after the loan is approved and signed, a card (Figure 72) is made out like that for automobile notes. This card is large for a purpose. The bank which uses it formerly had a narrower form instead, but it left insufficient room for the names of the warehouses under the heading, "description of collateral." The wider card gives plenty of room to enter all data easily without crowding.

Each warehouse receipt is numbered and the number is entered on the card. Under "denomination" the character of the collateral is written, whether eggs, beans, grain, canned goods, or bales of paper. All sorts of commodities are included in these loans. As each loan is made, a valuation is placed upon the goods in the warehouse and, according to this estimate, the amount to be advanced is determined. This figure is placed in the last column.

It often happens that a dealer will sell a part of his warehouse purchase at one time and a part at another. In this event, he is required to sign a trust receipt to

protect the bank while he removes the goods he wishes to dispose of. He promises, of course, to pay the bank the proportionate amount of money within a definite time limit, say from one to three days. Two trust receipts, each used with satisfaction by different banks, are shown in Figures 74 and 75.

The bank which uses the large index card keeps close tab on all partial payments on trust receipts to see that the loan is kept well balanced. If the market has changed and too low a price has been received by the dealer for his goods, he is asked to make up the difference or to furnish additional collateral.

The index cards are all filed alphabetically according to the borrower's name. The warehouse receipts, if there is more than one for a customer, are first arranged in numerical order and then placed in a heavy envelop, which is also filed alphabetically under the borrower's name. In this way the papers may be obtained quickly and the receipts handed out when customers present checks. Insurance policies are filed with the warehouse receipts.

As a guide to credits, all commodities are given special cards (Figure 76) which are filed alphabetically. On these cards are listed the names of all borrowers. For example, under "eggs" are entered the names of dealers who have borrowed on purchases of eggs. Should a sudden change come in the egg market these cards indicate the personnel of the risks, and the credit department can quickly decide whether to "call" these loans or to request more collateral.

To sum up, automobile and warehouse loans, investigation indicates, are receiving more attention generally from bankers, and as an added source of profit they are frequently looked upon with favor. With a simple plan for handling them, as has just been described, many bankers may find it advantageous to include them among their profit-making loans.

PART III

FARM AND CATTLE LOANS

CHAPTER IX

HOW TO APPRAISE FARM LOANS

"OUR files show 767 loans aggregating $108,000 maturing within the next four months," said the president of a middle western bank not long ago. "We are carrying probably $200,000 in farm paper altogether, outside of $100,000 in farm mortgages. The charge-off on our loans to farmers, not counting the farm mortgages, has been less than one third of 1% in the last three years."

This bank has resources of a little more than $1,000,000 and is situated in the center of an agricultural district where land values have increased from $25 to $150 an acre in the past 10 years. It has influenced the upbuilding of the community, and while it has lent extensively to neighboring farmers, it has had no losses to speak of. It usually has been able to accommodate its customers, mainly because of its complete and systematic loan records.

The plan used in this bank in tabulating and classifying its farm loans is adaptable probably to almost any bank. Investigation indicates that many small bankers rely too much on their memory or on guesswork in passing on farm loans, and as a result, they sometimes sustain sharp losses. A definite record is as necessary in the farm loan department of a bank as in any other department. The majority of small banks need a simple and at the same time comprehensive record of all farm-loan negotiations if safety and profits are to be secured.

When a farmer asks for a loan on real estate in the bank referred to, he is handed an application blank like that shown in Figure 77. This form provides the bank with all of the detailed information necessary to pass intelligently upon the loan. It furnishes the description and location of the property, the assessed valuation, the nature of the farm as to improvements, stumpage, water supply, and so on, and finally, general conclusions relating to the character of the prospective borrower. The application blank also provides for a comparative appraisal of the money value of the property and for insurance facts as set forth in the illustration.

Having this information in his files, the banker knows definitely what to expect when he decides to make a personal appraisal of the property. Often, however, he is familiar with the condition of all the farms in the county and an appraisal is therefore unnecessary. But when any application blank reveals a condition that is not clear, the cashier and two of the directors visit the farm and check the application against their personal inspection.

After the appraisal is completed and the application is passed on, the borrower is given a card to fill out like that shown in Figure 78. This card shows at a glance the net worth of the farm and includes the owner's valuation of his real and personal property. With this summarized credit information on the card, which is filed alphabetically together with the facts on the application blank, the bank knows definitely how much it can lend safely.

The bank has these cards revised annually and in this way places the farmer on the same footing with the commercial customer, who is required to file a statement of his financial condition at least once a year. By keeping the cards up to date the bank naturally gains the advantage of determining at any time the extent

APPLICATION FOR LOAN

To_____

_____

Name_____ Address_____

How many acres?_____

Describe land_____

_____ Section_____ Town_____

Are you working farm yourself?_____

How many boys?_____ Ages_____

Cash value of buildings, $_____

Cash value of whole property $_____

Assessed value, $_____

How much money wanted, $_____

How much is farm now mortgaged? $_____

Is personal property mortgaged?_____

How much insurance, $_____

How many acres plowed_____ How many acres woods_____

How many acres wet and low_____ Stone or thistle_____

Is man progressing?_____

I hereby apply for $_____ on first mortgage for_____ years

at_____ %_____

Sign here_____

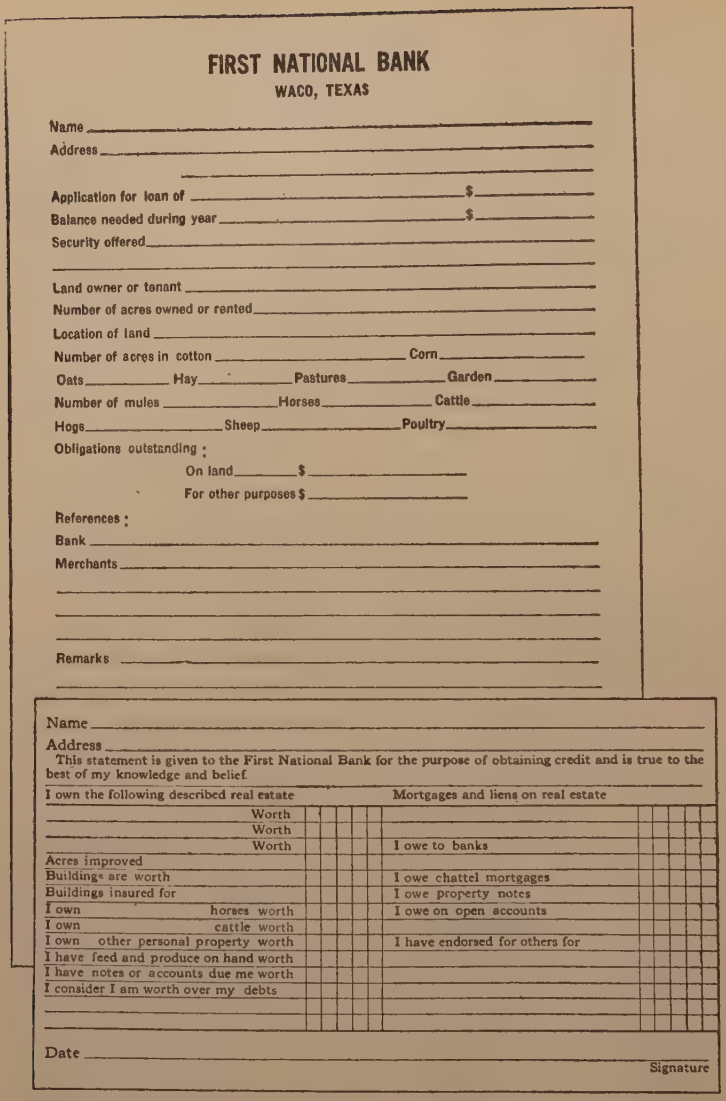
Man and loan personally recommended_____

_____

OFFICE RECORD			
Note			
Title			
Assignment			
Insurance			
Mortgage			

Personally inspected_____

Figure 77: One of the simplest of application blanks for a loan on farm real estate, this form does effective service for a middle western bank. Besides the usual questions to be answered it provides space at the bottom for a summary of the loan, if made, for the office record.



FIRST NATIONAL BANK

WACO, TEXAS

Name _____

Address _____

_____

Application for loan of _____ $ _____

Balance needed during year _____ $ _____

Security offered _____

_____

Land owner or tenant _____

Number of acres owned or rented _____

Location of land _____

Number of acres in cotton _____ Corn _____

Oats _____ Hay _____ Pastures _____ Garden _____

Number of mules _____ Horses _____ Cattle _____

Hogs _____ Sheep _____ Poultry _____

Obligations outstanding:

On land _____ $ _____

For other purposes $ _____

References:

Bank _____

Merchants _____

_____

_____

_____

Remarks _____

_____

Name _____

Address _____

This statement is given to the First National Bank for the purpose of obtaining credit and is true to the best of my knowledge and belief.

I own the following described real estate		Mortgages and liens on real estate	
_____ Worth			
_____ Worth			
_____ Worth		I owe to banks	
Acres improved			
Buildings are worth		I owe chattel mortgages	
Buildings insured for		I owe property notes	
I own _____ horses worth		I owe on open accounts	
I own _____ cattle worth			
I own other personal property worth		I have endorsed for others for	
I have feed and produce on hand worth			
I have notes or accounts due me worth			
I consider I am worth over my debts			
_____			
_____			

Date _____

Signature

Figures 78 and 79: The lower form is the small card which the bank asks the farmer to fill out after his application has been favorably considered. This gives the bank further valuable information before granting the loan. The other is a practical loan application record.

of the farmer's real and personal property, and is therefore able to consider loan applications on the basis of hard, cold facts, rather than on hearsay or surmise. Many banks have found this a most effective method of checking the farmer's borrowing power. The First National Bank of Waco, Texas, for example, like the bank already referred to, uses a record (Figure 79) which has proved effective. This card stands upright in the file and contains practically all of the information which the bank believes is essential in making a loan.

In this record, note that the section relating to references provides considerable space under the caption "merchants." Investigation indicates that the majority of banks handling farmer's loans make an effort to find out how much the farmer owes the "butcher, the baker, and the candlestick maker." This information is illuminating in suggesting to the banker how far to go in the extension of credit.

Most loans to farmers are made on a straight promissory note. A practical form of this kind of note is shown in Figure 80. Since it provides on its face for a record of all payments made, the date of the payments, the due date, the notice date, and so on, it is more desirable than the old-fashioned form which carried only the promise to pay, thus requiring the use of the reverse side for all notations. Many farmers who borrow on notes depend too much on the merchant to carry them over from harvest to harvest. On this expensive indirect credit of purchasing on instalment and running accounts, they usually pay excessive interest in localities remote from financial centers. Their debts pile up with no prospect of immediate reduction. The banker, therefore, has to keep a weather eye on this form of credit.

"We have found that the farmer often is apt to want to speculate with his products even at the expense of the groceryman who carries his account," says one banker.

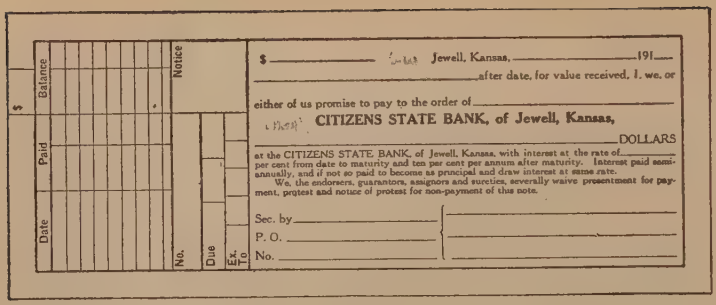


Figure 80: To save time in recording payments on farmers' notes, a Kansas bank makes use of this form for entering each payment.

THIS AGREEMENT MUST BE SIGNED AND SUBMITTED WITH EACH APPLICATION FOR A FARM LOAN.

This is to Certify that I, the undersigned, have this day appointed the FARMERS TRUST COMPANY of Indianapolis, Indiana, my agent to procure a loan of money, amounting to $_____ and have made a formal application for said loan, giving the full and complete description of the real estate to be covered by the deed of trust or mortgage to secure the payment of said loan, and said appointment as agent and application is hereby made a part of this agreement.

I further agree to pay to the said FARMERS TRUST COMPANY for procuring said loan a commission of _____% of the amount of said loan, payable in cash, or _____% of the amount of said loan, payable in equal _____ annual instalments, to be secured by a second deed of trust or mortgage on said real estate

I further agree to furnish an abstract of title to the real estate offered as security for said loan, compiled by some reliable abstracter, or firm, or company, now doing a general abstract business in the county in which the real estate is situated and approved by said FARMERS TRUST COMPANY, showing a perfect record title in me, and to furnish a continuation thereof after said loan is closed showing the mortgage securing said loan a first lien on the land.

I further agree to pay the attorney's fee for examining said abstract, all acknowledgment and recording fees, and the cost of United States Court certificates, whenever necessary.

I further agree to pay said commission if for any cause or reason I fail or refuse to complete said loan within thirty days from the date I am notified of the approval of the application. A written notice by the FARMERS TRUST COMPANY mailed to me at my post office address, as given in the application for the loan, within six weeks from this date, shall be sufficient notice that the application is approved.

Dated at _____ this _____ day of _____ 191__

To CORRESPONDENT—When commission is payable in cash, draw pen through "INSTALMENT" terms, and if paid in instalments, draw pen through "CASH" terms.

_____

_____

Figure 81: "Have it in writing" is the policy an Indiana bank has adopted in accepting an application for a farm loan. This agreement covers the chief points of the transaction and is an all-round protection.

"Nine out of 10 farmers in our community are very liberal borrowers for the purpose of carrying their crops and on this account they are naturally inclined to speculate. Our bank has kept track of this tendency by circularizing annually the country merchants in the 65 small towns tributary to this city, suggesting to them that they urge farmers to sell enough produce at harvest time to pay their store bills.

THESE APPLICATION BLANKS HAVE PROVED OF VALUE IN OBTAINING ALL NECESSARY INFORMATION

"For the past 10 years we have employed newspaper advertising, direct advertising, and personal solicitation as a means of educating our farmers to place half of their potato crop on the market as soon as the digging takes place. This not only enables them to keep their financial affairs in more liquid condition but makes it correspondingly possible for us to strengthen and protect our farm loans against the borrowers' temptation to speculate on the entire harvest. One young farmer who took our advice eight years ago has head the good fortune to accumulate $20,000, although in the beginning we lent him his first $500.

"When a farmer, who probably has a large loan at the bank, sells half of his crop in a good market, he has a substantial surplus left, and if he wants to speculate on the balance of the crop, that is his affair. At the same time, however, this practice is a loss to the community and possibly to the bank, as cotton in the warehouse or potatoes in the cellar do not circulate as money. This year, in one section for instance, the speculative type of farmer got his scare. At digging time, potatoes sold as high as $1.10, but within 60 days the price slumped and it was difficult to find a buyer at even 75 cents. Some farmers who were hanging on for higher prices owed us money on loans a year or more old, and they then pleaded for renewals or extensions."

In order to discourage this practice, some of the banks keep track of the farmer who speculates by making notations on his credit card, and then they write to him, trying to advise him how and when to sell. They also do constructive advertising along this line. One banker takes an automobile trip through the country about once a month, to see how his customers are getting along, and he always discusses the market conditions with them. This naturally enables him to safeguard his farm loans.

When the farmer applies for a loan, the funds which he requires are of two kinds. The first is the circulating capital to be used for short periods in growing, harvesting, and marketing the crops. This is usually designated as the short-time loan, already described. The second is the fixed capital to be sunk either permanently or for a long period in the acquisition and improvement of the land and in the purchase of extensive equipment. Loans made on this basis are generally known as long-time loans and will be described more fully in Chapter X.

The shortest period during which the farmer needs financing from the outside is usually longer than the ordinary 90 days of the short-time commercial loan. Consequently the commercial borrower, with his three-month paper, gets preference over the farmer, with his six-month or one-year paper. As a result, a large percentage of the farmer's loans are taken care of under methods described in Chapter X.

Investigation indicates that farmers are now accorded more than 75% of their credit by local banks and trust companies and the remainder by life insurance companies, savings banks, and individual investors holding real estate mortgages. As a rule, however, these lenders do not take securities running for more than five years, although of course the privilege of renewal is usually granted readily when general conditions permit.

INDIANA
FARM LOAN APPLICATION

It will be absolutely necessary to answer each question fully and fill in all the blanks herein, or the application will be returned therefor.

To Farmers Trust Company, Indianapolis, Indiana:

The undersigned hereby appoints you agent to procure a loan on the real estate described below, for the amount stated, and you are authorized as my agent to make application for me and in my name to any person or persons, corporation or corporations, whom you may select, and in my behalf to make all the following statements and representations for the purpose of procuring the loan hereby authorized, and you are also authorized to do such other things as you may deem necessary or proper to procure such loan for me.

It is fully understood that in all transactions relative to said loan, between you and myself or between your local correspondent and myself, you are acting and shall continue to act solely in my behalf, and not as agent of any other person or corporation connected with or interested in said loan.

The security offered is described as follows (State and give the acreage of any exceptions, such as school lot, church lot, burial ground, railroad rights of way, and so forth.):

Containing in all _____ acres, situated in the Township of _____ County of _____ Indiana.

Located _____ miles _____ from _____, the nearest railroad station on the _____ railroad.

(Mention distance and location of other towns in the vicinity)

Plot of Township No. _____ Range No. _____ of the _____ Principal Meridian

LOCATE THE PROPERTY ACCURATELY ON THIS DIAGRAM, SHOWING PUBLIC ROAD NEAREST RAILROAD AND RAILROAD STATION.

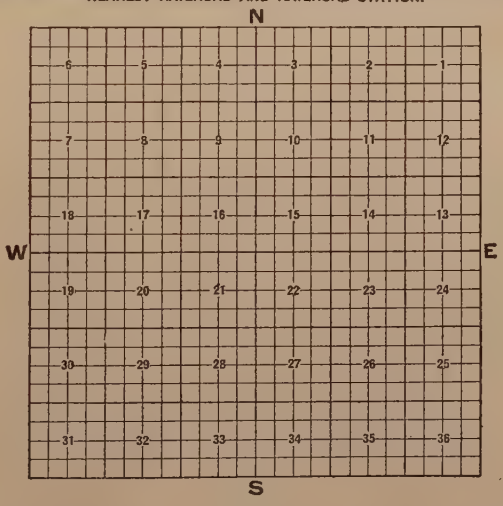


Figure 82: An Indiana bank which makes loans on real estate mortgages as security, finds that a three-page application form of which this is the first page exactly meets its needs. There is space for a complete description of the property, and a diagram to show its location.

1. Applicant's full name is _____ 2. Age is _____
3. Wife's full name is _____ 4. Age is _____
5. Is the title held by the husband or wife or jointly? _____
6. Is she surety for you in this transaction? _____ 7. Will dower interest be assigned? _____
8. P. O. address _____ in _____ County, State of _____
9. Are you of foreign birth? _____ 10. If so, have you become a naturalized citizen of the United States? _____
11. Have you ever been divorced? _____ 12. Are there any suits, attachments or proceedings pending or judgments unsatisfied against you in any court, State or United States? _____
13. AMOUNT OF LOAN WANTED IS _____ Dollars ($_____)
for a term of _____ years, with interest at the rate of _____% per annum, to be paid semi-annually, notes and mortgage (or deed of trust) to be drawn upon your customary form of blanks, with the privilege of making payments of one hundred Dollars or multiples thereof, on account of principal on any interest-paying day.
14. How soon will loan be wanted? _____ 15a. What encumbrance now on the land? _____
15b. Whom held by? _____ 15c. At what rate? _____ 16. For what purpose is this money applied for to be used? _____
17. How many acres are under cultivation? _____ 18. How many acres subject to overflow? _____
19. How many acres unfit for the plow; how many too wet? _____; how many too rough? _____
20. Is the land on a public road? _____ 21. What kind? _____
22. Is the land rented? _____ 23. To whom? _____
24. Until what date? _____ 25. At what rental? _____
26. What is the usual annual rental value, per acre, of similar property in the vicinity? _____
27. How many acres were originally prairie? _____ 28. How many acres are bottom land? _____ 29. How many acres are upland? _____ 30. What is the general character and quality of the soil? _____
31. How many acres are fenced? _____ 32. Kind and description of fence? _____
33. Is the land watered? _____ 34. How? _____ 35. Is the land rolling or flat? _____
36. Does it need ditching? _____ 37. How many rods of open ditch upon the land? _____
38. How many rods of tile? _____ 39. When did you purchase or inherit the land? _____
(If purchased in parcels, state details)
40. What did you pay for each tract? _____
41. What were the terms of purchase? _____
42. From whom did you acquire title to the property? _____
43. What buildings were on land when you bought it? _____
(Give size, material, when built, and what used for)
44. What was their value at that time? $_____ 45. What buildings have you erected since you bought it? _____
(Give size, material, when built, and what used for.)
46. What is the present value of the buildings you have erected since you bought it? _____
47. State in detail what improvements other than buildings you have made to the farm since you bought it. _____ 48. What is the money value of such improvements? $_____
49. On which forty-acre tract are the buildings located? _____ 50. For what amount are buildings insured? $_____
51. In what company? _____ of _____ 52. How much insurance will you assign? $_____
NOTE.—Fire insurance policies, subject to mortgagee and subrogation agreement, without co-insurance clause, and in companies satisfactory to the lender, will be taken out for the benefit of the loan, if required.

The present actual cash value of the land, exclusive of buildings, is:
_____ acres, at $_____ per acre, $_____
_____ acres, at $_____ per acre, $_____
_____ acres, at $_____ per acre, $_____ Total $_____
The present cash value of the buildings is _____ $_____
Total value at present _____

My Farm was divided as follows during the last crop season
(These must equal total number acres described)

	Total Yield
_____ acres in Corn.	_____ bu.
_____ acres in Oats.	_____ bu.
_____ acres in Wheat.	_____ bu.
_____ acres in other Crops.	_____
_____ acres in Tame Grass.	_____ tons
_____ acres in Timber.	_____
_____ acres in Grove.	_____
_____ acres in Orchard.	_____
_____ acres in Pasture.	_____
_____ acres in Cotton.	_____ bales
_____ Total.	Approximate Value of Total Crops $_____

STATE OF INDIANA } ss.
County of _____ }

The Applicant, being duly sworn, depose and say the statements above are true and correct in every particular; that he is of lawful age; that he is in peaceable possession of the property; that h title and possession is at this time unquestioned; that he is neither principal nor surety on any bond which is by law a lien on said premises; that there are no mortgages or other liens unsatisfied upon said premises or suits pending against h in any Court of Record of this State, or of the United States, which can result in a lien thereon that will not be removed before the loan is completed; that there is no liability of any lien being filed by mechanics, or others, which can take precedence of the lien of the loan above applied for; that there are no unrecorded deeds or mortgages except such as are shown by the abstract submitted; he understand that the loan hereby applied for is to be made upon the representations as to said premises above described, and the title to the same, made by h in this application.

Subscribed and sworn to before me this _____ day of _____ A. D. 191__
_____ Notary Public
My commission expires _____ 191__

_____ APPLICANTS
_____
_____
_____

Figure 83: This is the second page and across from it is the third page of the folder of which Figure 82 is page 1. Notice the careful detail with which every question concerning a farm loan is brought out in this document. Each item is numbered so that it can be re-

REPORT ON PROPERTY BY LOCAL CORRESPONDENT

Farmers Trust Company, Indianapolis, Indiana.

Gentlemen: I hereby certify that I have made a careful personal examination of the premises described in the foregoing application for the purpose of ascertaining their value and desirability as security for the loan applied for, and make the following report:

I have known the applicant for_____ years.

_____ acres are now in cultivation.

_____ acres of said land can be profitably cultivated.

The balance of the land is_____

_____

_____ acres of the above land are subject to overflow.

If the farm has been rented during any portion of the last three years, what was the average annual rental received in cash? $_____

The Soil is_____ and is of_____ quality.

The Buildings are as stated in the application, and are in_____ condition.

I have read carefully all the statements contained in said application and ascertained them to be true, with the following exceptions:_____

_____

_____

In my opinion the present cash value of the land, exclusive of buildings, is:

____ acres, at $____ per acre, $_____

____ acres, at $____ per acre, $_____

____ acres, at $____ per acre, $_____ Total $_____

and the present cash value of the buildings is_____ $_____

making the present cash value of both land and buildings_____ $_____

The Applicant is a man of good character and credit. His farm shows_____ management and is in_____ condition. He owns other land of the value of $_____, encumbered for $_____. He owns_____ head of horses and mules,_____ head of cattle, _____ head of hogs, and his farm is_____ equipped with farming machinery. His family consists of_____

(State number, age and sex)

From the character and condition of said farm, and the credit of the applicant, I believe that a loan of $_____ would be a desirable one for you to make.

Where a married woman can not become surety, we deem it important that the correspondent answer the following questions accurately:

Have you any knowledge, from any source, that the wife of the applicant (or feme covert making this application), by the loan herein applied for, is surety for her husband or any other person, either by execution of any instrument or by conveyance through trustee to her husband, or by any other means by reason of which suretyship might be made a defence to an action to foreclose?_____

(Give any further information obtained that may have a bearing on this loan.)

_____

_____

_____

_____

_____

_____

_____

_____

Local Correspondent

Dated at_____ 191____

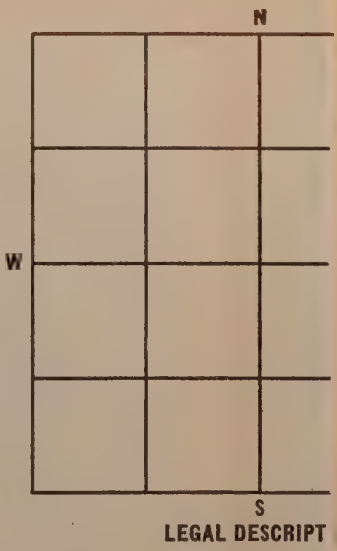
ferred to easily. The applicant is required to give the actual cash value of land and buildings. The total yield and the division of the land according to crops is also included. The third page is a concise report for the bank's local correspondent to fill out and return to the bank.

Since many of the great insurance companies have invested their funds in farm mortages, it is interesting to note the methods they employ in making farm loans. The Farmers' Trust Company of Indianapolis, Indiana, which handles a great volume of insurance money for investment, has a plan which illustrates a simple and effective process in use in many progressive financial institutions handling this class of business.

The savings banks or insurance companies usually are able to furnish funds to the farmer who wants to raise more money than his own bank can furnish. Upon applying for a loan, he is usually required to sign an agreement, similar to that shown in Figure 81. An application like that in Figure 82 is then handed to him and, as the form indicates, he must give a graphic location of the land to be mortgaged, together with all detailed information. The lender determines the quality and distribution of the crops, and gets an exact line on the borrower's method of farming, by referring to the application blank (Figure 83) which bears the caption, "My farm was divided as follows during the last crop season." This helps to avoid the danger of lending heavily on single crop farms as opposed to diversified crop farms—an important point that will be considered in Chapter XI.

After the farmer fills out this application and returns it for examination, the bank sends appraisers to inspect the land. A form like that shown in Insert IV indicates the results of this investigation. The inspectors, as a rule, are men who have lived long in the community and have gathered an expert's knowledge of real estate values. The inspection is an important step in the farm loan transaction, and unless it is based upon definite methods like those described in Chapter XI, there is danger of overlooking conditions having a direct bearing on the loan. When the inspector submits his report, the application is in line for final consideration.

INSPECTOR'S REPORT



LEGAL DESCRIPT

AMOUNT OF LOAN $_____

Farm owned by _____

in _____ County, State of _____

Address _____

Correspondent _____

Address _____

FARM IS DIVIDED AS FOLLOWS:	SURFACE IN ACRES:
____acres in corn	____acres smooth upland
____acres in oats	____acres valley fair best
____acres in wheat	____acres smooth low bottom
____acres in other crops	____acres smooth high bottom
____acres in tame grass	____acres gently rolling
____acres in timber	____acres medium rolling
____acres in grove	____acres little too rolling
____acres in orchard	____acres very rough-broken
____acres in ____	____acres little too flat
____acres in ____	____acres flat and wet
____Total.	____acres lagoon or basin
	____acres marshy

Number of acres wet or otherwise unfit for plow _____

Acres subject to overflow _____

Land on public road _____

If rented, state terms of tenancy _____

_____

Date present owner purchased land _____

Price paid _____

_____

How verified _____

PRESENT VALUE OF LAND

_____acres at $_____ per acre $_____

_____acres at $_____ per acre $_____

_____acres at $_____ per acre $_____

Present value of buildings _____

Total value of farm _____ $_____

Date _____ Amount of loan recommended $_____

Livery $_____

Inspector.

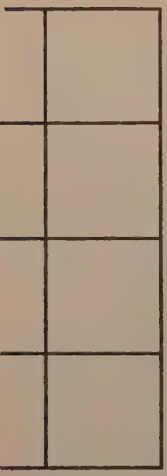
Containing _____ acres Township

County of _____ State o

Located _____ miles _____ from ____

on the _____

Insert IV: What more could be added to this inspector's report form, which so minutely details each essential fact regarding the land appraised? Every condition is visualized so that no misunderstanding in regard to the transaction is apt to arise. The j location of the property and description. Perhaps the bar the farm offered as security.



E

ION

How was farm identified_____

Did you meet the owner_____ Nationality_____

Residence and business_____

Location, railroad facilities and public roads_____

Soil, general character_____

Drainage_____

Acreage and location of timber_____

Buildings, condition and location_____

Fences and condition of same_____

Present management_____

Care of implements_____

Financial condition of borrower_____

Sales in neighborhood, if any_____

What class of farms surround this security_____

Remarks_____

of_____

f_____

railroad.

plat is used to show the exact below is space for the legal iker knows little personally of This record enables him to contrast the strong and weak points of the land, to know the layout exactly, and to determine the value in relation to the surrounding farms. It enables him to know the borrower's condition in an intimate, even if indirect way.

Before the bank executes the mortgage loan it brings to bear on the application all the accumulated knowledge and experience gained in studying the conditions affecting the district. This information usually consists of extensive field reports, like those described on page 151, and data pertaining to the general financial, banking, and collection facilities of the section.

When the loan application runs the gantlet successfully, the bank's lawyer checks it. Investigation shows that in the majority of banks there is on the board of directors a lawyer who handles all these details at a stipulated fee. He searches the title of the land offered by the borrower as security for the loan, puts the legal papers into proper form, prepares the mortgage, warranty deed or trust deed, as the case may be, and has them recorded as a lien against the property. All the details of the terms and the recording references to the mortgage are then recorded in the bank's or company's mortgage register. The collection of interest and other details incident to handling the mortgage and loan will be described in Chapter XIII.

This outline on appraising and handling applications for farm mortgage loans gives a hint of the detail involved in dealing with applications. Scarcely any two applications are alike in all particulars and the methods of inspection and appraisal likewise usually vary in the same way. For example, two southern banks, located in the same city and making loans in the same district, use application blanks that are widely different. One requires the prospect borrower to answer all detailed data under these heads:

1. Location
2. Acres and crops, character and topography of the land, color of the soil, kind of timber
3. Title, terms of purchase
4. Drainage, levees, and tiles

5. Water and fences
6. Value of land
7. Value of buildings, and so on
8. Insurance, and so on
9. Valuations
19. Live stock and fertility
11. When not occupied by owner
12. Encumbrances
13. Taxes
14. Other real estate owned
15. Personal

The main headings of the other blank are:

1. Security
2. Character and description of land
3. Buildings and insurance
4. Products
5. Stock and implements owned by borrower
6. Occupation
7. Market and neighborhood
8. General
9. Statement
10. Sundries

On page 4 of the application, the following agreement covers a number of significant items in the negotiation of a loan:

The undersigned does hereby agree to pay the traveling expenses of a representative of said Mercantile Trust Company to inspect this property. Same not to exceed $..... (check for this amount must accompany application). Also (if this application is accepted by you) to pay the cost of printing the notes hereinafter called for, the cost of same not to exceed $....., and to furnish a complete survey and abstract of title, pay all expenses for the examination of such title by a competent attorney residing and practicing in the state where property is located; also, all fees for recording papers, and for continuation of the abstract of title to show mortgage papers of record.

The undersigned has answered the above questions, and has made these statements for the purpose of procuring said loan, and does solemnly declare the same to be true in every particular, and has not withheld any information relative to said property which would adversely affect its value, and further agrees to and with said Mercantile Trust Company of St. Louis, Missouri, that in the event said loan is made or placed by it that it is to receive a commission of $..... for its services in making or negotiating same, said commission to be deducted from the proceeds of the loan.

The loan is to be represented by.....(.....) notes, each of the denomination of Five Hundred Dollars ($500), same to be signed by.....

The undersigned further states that he is in peaceable possession of the premises above described; that his title thereto has never been disputed or questioned; that there are no mechanics' or material men's liens against property; that there are no judgments unsatisfied, unpaid taxes or suits pending against him in any court of record of this state or of the United States; that there are no unrecorded deeds or mortgages, and he is neither principal nor surety on any bond which is by law a lien upon said premises.

Witness.....hand.....and seal.....this.....day of.....

19.....

.....(SEAL)
(Signature of applicant in full)

Witness..... Address.....

All applications for real estate loans considered by the undersigned are subject to the following conditions and reservations, that is to say:

1. The title to the premises proposed to be mortgaged shall be pronounced perfect by this company's counsel.

2. In case any law is now in effect, or shall be enacted by the legislature of the state in which the property to be mortgaged is located, providing for the taxation of mortgage securities or notes secured by mortgages or deeds of trust, all such tax or taxes shall be paid by the borrower.

3. If the requirements of this company, in relation to the loan, are not met and the loan completed within 30 days after written notice of acceptance of the application, this company reserves the right to drop the loan from its list of engagements, unless the time shall have been formally extended by this company.

4. The abstract and all evidence of title furnished must be retained by this company until the loan is fully paid.

5. We charge the customary commission for paying notes and coupons: This is the small fraction of 1/8 of 1% on the amount of the principal notes, and 1/4 of 1% on the amount of interest coupons paid from time to time. This charge is based upon the clerical work involved, and the responsibility assumed, in paying and caring for such notes and coupons.

This important provision should be carried on all application blanks since the lender's terms to the borrower must include compensation for such services as appraisal, legal advice, collection, and so on. In view of these special costs and the fixed expense of this service, the margin of profit, coming out of the difference between the rate of interest the farmer pays and the current money rate, is a narrow one at best. The net profit is determined rather by the volume of business and the skill in management than by the territory. This will be brought out more fully in the following chapters.

It is evident here, however, that, with a correct analysis of its field, every bank can save in routine and prevent losses by having adequate application blanks and appraisal methods for its farm loans.

CHAPTER X

SETTLING THE LONG-TERM LOAN PROBLEM

A GREAT number of American bankers, mortgage companies, and private investors have handled many millions of dollars of prime farm mortgage loans without ever resorting to foreclosure. In fact, in one county of Illinois there has been no foreclosure in 30 years. Similar conditions have prevailed in certain other sections, too. In these communities, therefore, farm loans are considered an attractive investment.

However, the long-time farm loan has not met with great favor among bankers even in the richer sections of the country. Naturally banks which must keep their funds fairly liquid have not been tempted often to float a loan over a period of, say, 25 or 30 years. As a result, bankers in rural communities have had at times a serious problem to meet in cooperating with the farmer without issuing long-period paper.

The establishment of the Federal Farm Loan Bank and its subsidiaries and the methods it employs in solving this problem are, therefore, of interest to all bankers, especially to the great majority who are definitely linked up to the farm loan and agricultural credit. The plan of the First Joint Stock Land Bank, which is described in this chapter, illustrates quite clearly how the long-time farm mortgage of large proportions is negotiated.

Until the organization of the Federal Reserve Bank, many bankers doubted if the so-called country bank,

serving only its own little community, and managed by local men, could handle advantageously the large farm loan. Individually, however, they were probably better able to give credit than a branch of a large bank, yet when a financial cloud appeared on the horizon, the general run of small bankers usually tightened up on credits and called in their loans.

Before the establishment of the Federal Reserve System, the country banker often trembled at the suggestion of a long-time loan; he had always before him the possibility of a panic like that of 1907, for example, when it was practically impossible to borrow money, and the demoralized markets made it ruinous to force customers to sell their products. But the Federal Reserve System has helped to eliminate this menace and the banker can turn his attention more readily now to the upbuilding of his community and to the wider financing of his customers. The problems of the country banker vary according to the locality. Banking conditions in Georgia differ from those in Michigan just as those in the rural districts of New England differ from those in California. Each banker has his own problems, especially in lending, which must be worked out according to the soil, the crop, and the market conditions as shown in Chapter XI.

Investigation has shown that many country bankers can determine how far to finance the farmer because they were raised in the rural districts and are therefore familiar with his problem. This knowledge, supplemented by experience as a clerk or a junior officer in the bank, and by watching the balances and knowing the profits made by the various farmers, enables the banker usually to determine the time customers need to pay off loans, and to forecast the success or failure of a given farmer. He has learned, first of all, that a loan is desirable when it is extended to the man who can take the money and put it to productive use.

CONTINENTAL AND COMMERCIAL BANK BUILDING
CHICAGO, ILLINOIS

VALLEY NATIONAL BANK BUILDING
DES MOINES, IOWA

APPLICATION FOR FARM LOAN

To the First Joint Stock Land Bank of Chicago

The undersigned does hereby make application for a loan of _____ Dollars ($_____) for a term of _____ years, with interest at the rate of 5½ % per annum, the principal and interest to be payable semi-annually on the amortization plan, according to amortization tables prescribed by the Federal Farm Loan Board; the privilege to be given of paying $25.00 or any multiple thereof on the amount remaining due, or the entire principal, at any payment period after five years from the date of the mortgage, under rules and regulations of the Federal Farm Loan Board; the said loan to be secured by a first record mortgage on the following described real estate; to-wit (state and give the acreage of any exceptions such as school lot, burial ground, railroad rights of way and so forth.):

Borrower's full name _____ Age _____
Nature of your business _____
Name of spouse _____ Age _____
When is loan wanted? _____
P. O. Address _____ County of _____ State of _____
The land offered as security for this loan is situated in _____
County _____, legally described as follows, to wit:

	Section	Township	Range
1			
2			
3			
4			

containing in all _____ acres, according to government survey thereof.
Nearest railroad town _____ Miles _____ Population _____
Nearest market town _____ Miles (N. E. S. OR W.) _____ Population _____
Distance from school _____ Nationality of community _____ (N. E. S. OR W.)

Without buildings, but including other improvements the present fair market value of this land is:
_____ acres at $ _____ per acre, $ _____
_____ acres at $ _____ per acre, $ _____
_____ acres at $ _____ per acre, $ _____
_____ acres at $ _____ per acre, $ _____ Total, $ _____
Including buildings and other improvements, the present fair market value of this land is:
_____ acres $ _____ per acre, $ _____
Insurance on buildings, in approved company, to be assigned to mortgagee if required _____, $ _____
(Buildings must be insured in an old line company)

In the table immediately following I have stated briefly how I have (or expect to) come into possession of this land, giving separately the main details of each transaction, and what I consider the land worth:

Tract of Land Purchased	Year Purchased	Price Paid for Land and Buildings	Amount Paid in Cash	Amount Given in Trade	Amount of Mortgage Given	Present Value (of land only)	Present Value of Land and Buildings	
							Per Acre	Total

The insurable improvements (only) on this land are described and valued as follows:

Name of Building or Improvement	Dimensions — Give Additions Separately	Construction Material	Year Built	Original Cost	Amount Insured for	Present Value

Fencing — Rods and kind _____ When erected _____
Tiling — Rods and size _____ When laid _____
Since buying, what improvements have you made? _____
What, if any, of above are unpaid for? _____

Horses _____ Mules _____ Sheep _____ Hogs _____ Cows _____ Other Cattle _____
Value of Stock, $ _____ Amount of Chattel Mortgage, if any, $ _____
Value of Farming Implements, $ _____ Amount of Chattel Mortgage, if any, $ _____

PLEASE ANSWER EVERY QUESTION CAREFULLY AND FULLY

Figure 84: Here is the first page of an application for a farm loan to a Joint Stock Land bank. Notice how thoroughly the questions search every point regarding the applicant's entire property. Each question has to be answered fully. Other sections of the application follow.

Continuation of Application for Farm Loan to the FIRST JOINT STOCK LAND BANK OF CHICAGO

Name of present occupant _____ as owner or tenant _____
If rented, give terms _____
Average rental in this vicinity _____
Average value of farms per acre in this vicinity, $ _____

CROPS GROWING OR LAST GROWN (These must foot exact acreage above)	SURFACE	SOIL AND SO FORTH
_____ acres in Corn _____ bu.	_____ acres were originally prairie.	The soil is _____
_____ acres in Wheat _____ bu.	_____ acres were originally timber.	The sub-soil is _____
_____ acres in Oats _____ bu.	_____ acres are smooth and level.	About _____ acres cannot be profitably
_____ acres in _____ bu.	_____ acres are gently rolling.	cultivated because _____
_____ acres in Meadow _____ tons	_____ acres are steeply rolling.	_____
_____ acres in Clover _____ tons	_____ acres are rough and broken.	About _____ acres are sandy, gravelly
_____ acres in Tame Pastures	_____ acres are flat and wet.	or stony.
Rental Value, $ _____	_____ acres are well suited to plow.	What sides of land lie on public road?
_____ acres in Orchards and Lots	_____ acres have been plowed.	_____
_____ acres in Timber Pasture	_____ acres have not been plowed.	When and how much more tiling or ditch-
_____ Value of Pasture, $ _____	_____ acres are fenced.	ing will you do? _____
_____ acres in _____	_____ acres are subject to overflow.	_____
_____ acres in _____	_____ rods of open ditch	_____
Total Value of Crops, $ _____	_____	_____
_____ Total acres in Farm.	_____	_____

The only encumbrance against this land is $ _____ held by _____
due _____ 19____, may be paid _____ 19____. I own other real estate to the value of $ _____
located in _____ with $ _____ encumbrance thereon.
My total assets at this time are $ _____ Total liabilities at this time do not exceed $ _____
Drainage tax, $ _____ Levee tax, $ _____ Other tax, $ _____

I am single ____ married ____ Aged _____; my wife's name is _____
and her age is _____. I have children, namely: _____ boys, aged _____, _____, _____, _____
_____ girls; aged _____, _____, _____, _____, _____, _____. Nationality _____
of which _____ boys, _____; girls, _____, _____ are at home and assisting with farm duties.
Have you ever been divorced? _____; If so, when and where? _____

I am a citizen of the United States, and for _____ years past, with my grantors, have been in open, undisputed, adverse and peaceable possession of said premises, and every part thereof. There are no other claimants thereto. Neither my title, nor that of my grantors to said premises has ever been questioned. There are no judgments or decrees and proceedings against me, or any of my grantors, in any Court of Record (State or Federal) that are a lien upon said premises. There are no liens or rights to liens of mechanics or material men against said premises. There are no outstanding deeds or mortgages upon said premises unrecorded, and no liens or equities of any kind affecting the title thereto not fully disclosed of record, and I do not know of anything that may give rise to adverse claims of any kind. There are no unsatisfied judgments, or unpaid taxes affecting said land. I am not insolvent, or in bankruptcy, or threatened with bankruptcy proceedings. I am not, nor is any of my grantors, a party to any bond or writing, either as principal or surety, that is, or may become, a lien upon said premises.

I agree in making this application that any expense incurred by your bank, or representative thereof, for inspecting the property and charges of counsel for examining abstract, and any other incidental expense incurred, will be paid by me, whether the loan hereby applied for is granted, or not, and I also agree to pay recording fee of mortgage loan herein applied for, and expense of its proper release when paid. Also that a complete and acceptable abstract and necessary continuation thereof, and such other evidences of title as may be necessary, are to be furnished by me at my expense, total amount of which is to be retained by the bank when loan is completed.

In order to induce the said First Joint Stock Land Bank of Chicago to make a loan, whether in exact conformity to the foregoing application, or in such amount, for such time, at such rate of interest, and upon such terms and conditions as may hereafter be mutually agreed upon and evidenced by the note ____ and mortgage or trust deed actually executed (and if there is any variance between the latter and this application then this application shall be considered to be amended to conform to the note ____ and mortgage or trust deed as actually executed), the undersigned REPRESENTS, WARRANTS, GUARANTEES and INSURES to said bank the truth of all and singular the foregoing statements, which are understood to form the basis for the proposed loan and are to be construed in connection therewith and as relating to the security offered therefor.

I hereby appoint _____ as my agent to negotiate said loan, and to receive the proceeds thereof, which I direct shall be paid to his, its or their order.

Being first duly sworn, I depose and say upon oath, that all the representations contained in the foregoing application and statement are true of my own knowledge.

Subscribed and sworn to before me this _____ day of _____ A. D., 19____

Dated at _____, 19____

_____ _____

Notary Public _____ County _____ _____

My Commission Expires _____ 19____

PLEASE ANSWER EVERY QUESTION CAREFULLY AND FULLY

Figure 85: The first of these sections gives complete data regarding the crops and soil of the customer's land, together with some of the personal facts about himself and family. Notice also that a complete guaranty to safeguard the company in making the loan is appended.

APPRAISAL OF PROPERTY

(To be signed by your banker and one other landowner)

State of _____ } SS.
County of _____ }

We, the undersigned residents in said County and State, do hereby certify that we are well acquainted with the value of real estate therein; that we have recently examined the property described in the foregoing application, and that in our judgment the present cash market value of the land, exclusive of buildings, is $ _____ per acre or a total value of $ _____ and the cash value of the buildings is $ _____, making a total value of $ _____

_____

_____

Subscribed and sworn to before me this _____ day of _____ A. D. 19 ____

_____
Notary Public.

My Commission expires _____ 19 ____

AFFIDAVIT OF POSSESSION

When the land is occupied and used by the owner; the following statement is required:

State of _____ } SS.
County of _____ }

The undersigned, being the owner and actual occupant of the property described in the foregoing application, hereby certifies that ____ he ____ is now and has been for _____ years last past, in sole and peaceable possession thereof, and that no other person occupies or has possession of said property or any part thereof.

_____

_____

Subscribed and sworn to before me this _____ day of _____ A. D. 19 ____

_____
Notary Public.

My Commission Expires _____ 19 ____

When land is occupied or used by anyone other than the owner, the following statement is required:

State of _____ } SS.
County of _____ }

The undersigned, being the actual occupant of the property described in the foregoing application, hereby certifies that he does so only as the tenant of the owner _____ and that except as a tenant he has no right, title or interest in said property or any part thereof.

_____

_____

Subscribed and sworn to before me this _____ day of _____ A. D. 19 ____

_____
Notary Public.

My Commission expires _____ 19 ____

The points covered doubtless will suggest to some bankers ways to improve their own loan forms. The third section shows how the bank still further insures itself against the possibility of loss, by complete statements of ownership signed and sworn to and a supporting affidavit.

This does not mean necessarily that it is unsafe to furnish a farmer funds to buy an automobile. It does mean, however, that it is normally less safe to lend money for unproductive purposes, than to lend for increasing productivity. An example of credit wisely extended is shown in the treatment of livestock investments in Chapter XIV.

The banker also knows the necessity of keeping his funds liquid. He not only must draw his notes for short terms, but he must invest his funds so that they will be self-liquidating. A banker may have a case full of collectable notes and yet the safety of the bank may be imperiled because too many renewals are among the loans. There is the danger of being without funds to reach out and support the young farmer or the new enterprise. When an extraordinary demand for funds arises or local conditions require heavy withdrawals, the maturing loans have to be renewed.

The country banker, therefore, should be well fitted to judge the credit strength of the community because of his familiarity with the securities offered, and the potential ability of the borrower to repay the loan. The fact that the farmer owns his property or has a considerable equity in it, naturally enters into the problem of advancing him money. Yet, unless the borrower can produce crops and liquidate his loans at least once a year, he is not profitable to the bank because he has considerable money tied up and, in many instances, can settle only by giving a mortgage or by increasing the mortgages already existing and held by the bank.

When the banker continues to renew these loans and carries them year after year, he has tied up money which he could use to advantage in building up the community or in developing a bigger list of customers. For that reason many bankers, investigation shows, look with favor on the amortization plan of the Joint

Stock Land Bank to finance the farmer over a long term. In fact, it appeals to them because it helps to finance some of their customers and enables the small commercial banker especially to continue making profitable short-term loans, which represent the bulk of the business in the country bank.

HOW THE JOINT STOCK LAND BANK OPERATES TO THE BENEFIT OF THE COUNTRY BANKER

Let us suppose, for example, that Asa Heath wants to borrow money on the long-time plan. He owns a farm worth $40,000. He has transacted all of his business with a bank of $50,000 capital and $900,000 deposits, has been a good customer for many years, has borrowed consistently, and has always repaid his loans promptly. He finds that he can buy a quarter section of land adjoining his farm, if he can get a loan of, say $15,000. He cannot secure this much at his bank, although, of course, it can arrange to furnish the money through outside sources or through a local investor. But even then, the retirement of a loan, after it is made, is a serious problem, because of the payments of the principal and interest. The amortization plan offers a solution, providing for repayment over a long period.

When Heath files his application (Figure 84) for the $15,000 loan with the Joint Stock Land Bank, the officers can tell at once from their records the probable value of the land to be mortgaged. They also know the amount they should lend on a farm of given acreage taking into consideration the farmer's reputation for meeting his obligations promptly. When the application comes in, the bank acknowledges its receipt, at the same time notifying the prospective borrower that he must send in from his own bank a confidential report on a form like that shown in Figure 86. This deals with the value of the land and also with the finan-

CONFIDENTIAL REPORT

FIRST JOINT STOCK LAND BANK OF CHICAGO
CHICAGO, ILLINOIS

Carefully fill this Report—answering every Question, and forward with each application. The information it furnishes will be held Confidential.

Do not answer with "Don't Know," and so forth. We desire a definite and specific reply to each question. If you do not have the information, please procure it. If the blank space is too small for answer, explain fully on blank lines below and on back hereof.

1. Applicant's full name is_____
2. Amount of loan, $_____
3. Description of land_____

_____ County of_____ State of _____

4. Existing encumbrance, $_____ to_____ of_____ due_____
_____ to_____ of_____ due_____
_____ to_____ of_____ due_____

5. **WHERE** must each be paid?_____
6. Can release of all mortgages certainly be obtained by paying the money now?_____
7. Have all interest payments been promptly met?_____ 8. Are there any suits pending or judgments against applicant?_____ If so, state date, amount, and full particulars of each below.
9. **WHEN** have you seen this land?_____ 19__
If correspondent is a firm, give name of member who has seen it
10. Does any creek or stream adjoin or cross this land?_____ If yes, explain fully._____
_____ 11. Does any part of it overflow, and if so, how many acres, and how often, and how long does the water remain on the land?_____
12. Is any part sandy or gravelly or poor soil or lacking in good drainage, and if so, explain fully._____
13. What do you consider the present selling value of this farm as it stands on usual and ordinary terms of sale? $_____
14. Not counting the buildings, what do you believe the land itself would now sell for? $_____
15. How many acres of land does he own in addition to the above?_____
16. Describe it by numbers and parts of section and locate on plat on back of application._____
_____ 17. What is it worth? $_____
18. Existing encumbrance, $_____ to_____ of_____ due_____
Encumbering_____ also $_____ on_____
19. Of live stock applicant owns_____ horses,_____ colts,_____ mules,_____ cattle,_____ calves,_____ hogs and_____ sheep.
20. Of grain and hay he has on hand_____ bu. corn_____ bu. wheat,_____ bu. oats,_____ bu. of_____ and_____ tons hay.
21. Total value of all his personal property is $_____ 22. Is it encumbered by chattel mortgage?_____
23. How much? $_____ (Explain)_____
24. Do you know applicant personally?_____ 25. How long have you known him?_____
26. What is his reputation?_____ 27. Is he making money?_____
28. Do you consider him a good business manager?_____ 29. Do you think he will be prompt in paying interest?_____
30. What business, besides farming, is he engaged in, if any?_____
31. To what extent does he drink intoxicating liquors?_____
32. Do you know any sort of interest, claim or lien that may affect this title, not shown by abstract?_____
33. How much paid up old line insurance on buildings, will applicant assign if required? $_____
34. Has application for loan on this property been made to any other lender?_____ To whom?_____
35. If loan was declined, state why; if approved, state how much._____
36. What is the least amount borrower will agree to accept? $_____
37. Up to what amount do you consider the loan thoroughly safe and desirable under our rules? $_____
38. Have you carefully read and considered each of the answers and statements made in application?_____
39. Which, if either, of them ought to be modified in order to be strictly true, and how? Explain fully_____

Dated_____ 191__

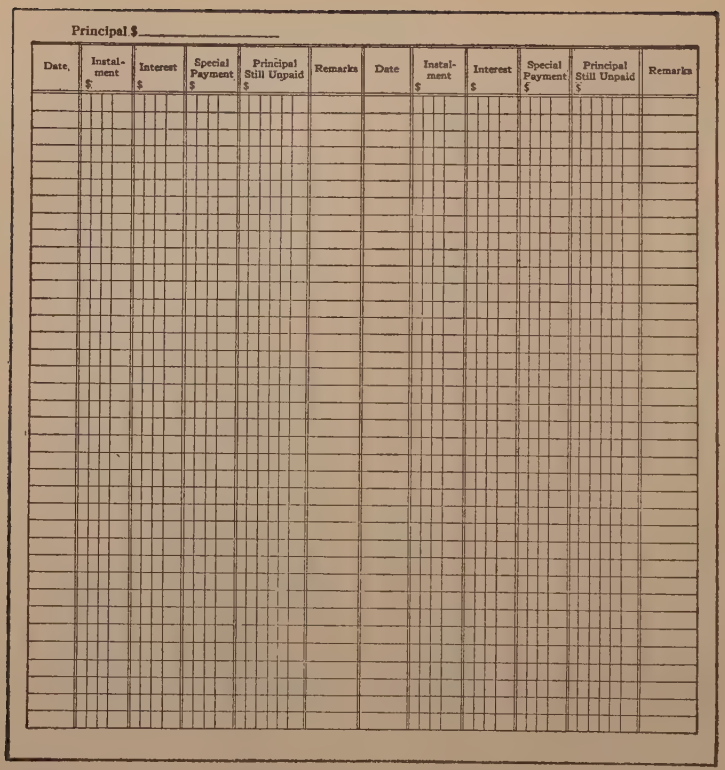
_____
To be signed by Correspondents only

Figure 86: A Joint Stock Land Bank will not pass on a loan application without first receiving from the borrower's home bank a report like the one shown here. This makes clear the personal standing of the applicant as well as the exact condition of the land appraised.

cial condition and reputation of the applicant. A request also is made that an abstract be forwarded, and when this is received, it is turned over to the bank's attorneys for preliminary inspection.

The attorneys who pass on titles of land for loans of this character must be approved by the General Attorney of the Federal Land Bank District in which the Joint Stock Land Bank operates. If he finds that the borrower has a good title to the land, the Joint Stock Land Bank makes application to the Federal Loan Bureau at Washington for an appraiser to inspect the farm, unless the bank should have an appraiser already working in that vicinity. In that event it usually directs him to make the appraisement. But if no appraiser is working in the vicinity, the Federal Farm Loan Bureau will assign the nearest available government appraiser to value the farm. The Federal Farm Loan Board appoints these appraisers who are experts in farm land values. Certain of its appointees appraise the cheap or power lands fit only for grazing, while others get the figures for the rich corn lands.

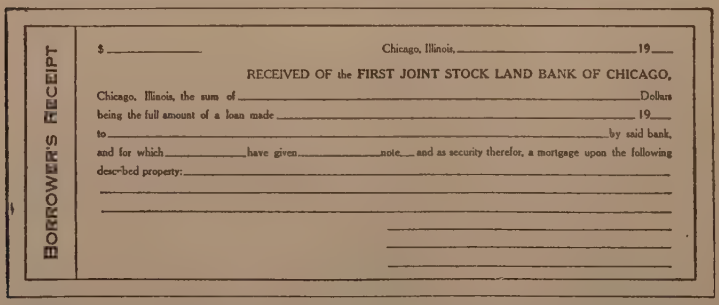
Upon receipt of the government appraiser's report (Insert V), the bank will have its own appraiser make an inspection for comparison, and verify the facts as presented in the owner's application and the appraiser's report. Then if the bank finds the application to be satisfactory, it returns the abstract to the abstractor with notations for minor corrections, if any are necessary, and continuation. That official draws the papers to complete the loan and forwards them to the bank with which the farmer does business, with full instructions as to the methods of signing and acknowledgment. He instructs the banker, when the signature is attached to the paper, to forward the mortgage papers to the county recorder for registering, and to mail the signed note, the payment section of which is shown in Figure 87, to the Joint Stock



Principal $_____

Date.	Instal-ment $	Interest $	Special Payment $	Principal Still Unpaid $	Remarks	Date	Instal-ment $	Interest $	Special Payment $	Principal Still Unpaid $	Remarks

Figure 87: This is one section of a farm loan bond issued by a Joint Stock Land Bank. It indicates the simple provision made for recording the instalment, special, and interest payments made by the borrower.



BORROWER'S RECEIPT

$_____ Chicago, Illinois, _____ 19___

RECEIVED OF the FIRST JOINT STOCK LAND BANK OF CHICAGO,

Chicago, Illinois, the sum of _____ Dollars

being the full amount of a loan made _____ 19___

to _____ by said bank,

and for which _____ have given _____ note, and as security therefor, a mortgage upon the following

desc-bed property: _____

Figure 88: When the loan is fully made, the borrower signs this receipt to complete the bank's records. It checks up the transaction.

Land Bank, together with the borrower's receipt (Figure 88) and the receipt from the county recorder filed for record.

If a prior mortgage is being paid off on the land, proper release for that must also be filed for record. The abstract is brought down, showing the recording of all instruments, and is left with the attorneys for the bank which issues a certificate showing that the mortgage as given is a first and valid lien on the premises described. When all the papers are in the hands of the Joint Stock Land Bank, the remittance is then made as directed by the borrower.

INFLUENCES THAT CAUSE INTEREST RATES TO VARY IN DIFFERENT COMMUNITIES

The borrower's only expense in arranging for this long-time loan is the fee and the government appraisement, revenue stamps, recording fees and abstracting, and the fee charged by the bank's attorney for determining the title. Investigation shows that rarely do all these fees exceed more than $15 or $20 for a loan. In addition, it is, of course, necessary for the borrower to compensate his local banker for carrying the loan while it is being closed.

When the Joint Stock Land Bank receives the completed papers, the information is entered upon forms approved by the Federal Farm Loan Board and is turned over to the registrar of the district, who is a government appointee. Copies of the original application, the appraiser's report, the certificate of title, the original note, and the recorded mortgage are forwarded to the registrar, together with the application for the bond.

The general attorney, acting in behalf of the Federal Land Bank District in which the Joint Stock Land Bank is located, inspects all the papers as well as the title. Upon his approval the registrar certifies

A loan of $1,000 at 6% interest repayable in 33 years by means of semi-annual instalments of $35.00, which includes interest and part of the principal.

Payment No.	Instalment	Interest	Applied on Principal	Principal Still Unpaid
1	$35.00	$30.00	$ 5.00	$995.00
2	35.00	29.85	5.15	989.85
3	35.00	29.70	5.30	984.55
4	35.00	29.54	5.46	979.09
5	35.00	29.37	5.63	973.46
6	35.00	29.20	5.80	967.66
7	35.00	29.03	5.97	961.69
8	35.00	28.85	6.15	955.54
9	35.00	28.67	6.33	949.21
10	35.00	28.48	6.52	942.69
11	35.00	28.28	6.72	935.97
12	35.00	28.08	6.92	929.05
13	35.00	27.87	7.13	921.92
14	35.00	27.66	7.34	914.58
15	35.00	27.44	7.56	907.02
16	35.00	27.21	7.79	899.23
17	35.00	26.98	8.02	891.21
18	35.00	26.74	8.26	882.95
19	35.00	26.49	8.51	874.44
20	35.00	26.23	8.77	865.67
21	35.00	25.97	9.03	856.64
22	35.00	25.70	9.30	847.34
23	35.00	25.42	9.58	837.76
24	35.00	25.13	9.87	827.89
25	35.00	24.84	10.16	817.73
26	35.00	24.53	10.47	807.26
27	35.00	24.22	10.78	796.48
28	35.00	23.89	11.11	785.37
29	35.00	23.56	11.44	773.93
30	35.00	23.22	11.78	762.15
31	35.00	22.86	12.14	750.01
32	35.00	22.50	12.50	737.51
33	35.00	22.13	12.87	724.64
34	35.00	21.74	13.26	711.38
35	35.00	21.34	13.66	697.72
36	35.00	20.93	14.07	683.65
37	35.00	20.51	14.49	669.16
38	35.00	20.07	14.93	654.23
39	35.00	19.62	15.38	638.85
40	35.00	19.17	15.83	623.02
41	35.00	18.69	16.31	606.71
42	35.00	18.20	16.80	589.91
43	35.00	17.70	17.30	572.61
44	35.00	17.18	17.82	554.79
45	35.00	16.64	18.36	536.43
46	35.00	16.09	18.91	517.52
47	35.00	15.53	19.47	498.05
48	35.00	14.94	20.06	477.90
49	35.00	14.34	20.66	457.33
50	35.00	13.72	21.28	436.05
51	35.00	13.08	21.92	414.13
52	35.00	12.42	22.58	391.55
53	35.00	11.75	23.25	368.30
54	35.00	11.05	23.95	344.35
55	35.00	10.33	24.67	319.68
56	35.00	9.59	25.41	294.27
57	35.00	8.83	26.17	268.10
58	35.00	8.04	26.96	241.14
59	35.00	7.23	27.77	213.37
60	35.00	6.40	28.60	184.77
61	35.00	5.54	29.46	155.31
62	35.00	4.66	30.34	124.97
63	35.00	3.75	31.25	93.72
64	35.00	2.81	32.19	61.53
65	35.00	1.85	33.15	28.38
66	29.23	.85	28.38	.....
	$2,304.23	$1,304.23	$1,000.00	.....

Figure 89: Tables like this make it easy for country bankers to compute long-term loans where they handle this sort of paper. The plan is valuable because it offers at first hand the figures necessary for all of the information. Complete data for each instalment is given.

to the Farm Loan Board that he finds the papers satisfactory, and he forwards the original papers, with the exception of the note and mortgage, to the Federal Farm Loan Bureau at Washington, where an official known as an inspector of securities, examines them again. If he approves them, the Federal Farm Loan Board acts upon the application for a bond issue, and if the action is favorable, the board instructs the registrar for the Federal Land Bank District, in which the Joint Stock Land Bank is located, to countersign and forward to it bonds of a certain series. The proper officers of the Joint Stock Land Bank then sign the bonds, affix the seal, and get them ready to sell to the investor. With these safeguards thrown about the loans, the bonds are backed by good, producing land conservatively valued.

The fixing of the interest rate on the farm loan, whether large or small, is important, since the Joint Stock Land Bank not only compares rates in various sections of the country, but also considers local loan conditions, both rural and urban. Investigation indicated that for purchase money loans, the range of rate on farm loans was practically the same as on urban loans, 6% to 8½%. It is worth while noting that the security and the cost of rural credit in the high-rate communities, such as Idaho or Wyoming, usually can be traced to the low standard of agricultural skill and soil production, uncertain land values, legal handicaps, and the like.

Another consideration is that in any community, where different rates of interest prevail, the volume of loans outstanding cannot be ascertained without determining the rates of the total amount to the rate in each case. That is, rate means little unless it is hooked up with details. For example, even though 70% of the farm loans in Iowa should have a rate of 5%, since Iowa is a rich agricultural state, and of the

remaining 30%, one half should bear 6% and the other half 7%, the average for the state would be 6%. Yet this cannot be considered as a fair indication of the actual conditions because 70% of the loans carry less than 6%. Therefore, to know the actual conditions, it is necessary to determine the total amount of the loans carrying the different rates.

Another important point in establishing the rates is the character of the loan carrying the rate. Investigation shows that second mortgages on city property in the most prosperous sections of the country bear 10% and upward, the prevailing rate of interest including the discounts.

It would not be unreasonable for a second mortgage on a farm to carry a similar rate. Still it would be misleading to include a rate of this kind in determining the real cost of first mortgage money in the same community. Again, where a loan is made for from 60% to 70% of the value of the security, when 50% is usually the basis, the borrower must naturally pay a higher rate. And another important consideration is the size of the transaction. The man who borrows $200 to $500 often pays 7%, while the customer who borrows $1,000 to $2,000 on a single mortgage gets a 6% rate. It is obvious that unless a higher rate were charged for the smaller loans, they would have to be made at a distinct loss.

Thus, when making loans to cover a long period, fixing the rate of interest high or low is merely of relative importance. For example, a farmer on land worth $200 an acre, where the interest rate is 5%, must charge against the gross income each year $10 an acre interest. But the farmer on land worth $20 an acre, where the interest rate is 8%, must charge against each year's gross income $1.60 an acre, or $8.40 less than the farmer on the 5% land charges. This shows substantially that the farmer on the 8%

THE OLD PLAN

The farmer borrows $20,000 at 6% interest, renewing the loan every five years. Every time he renews he pays for the abstracting, the recording, the commission, and the like. The interest is $1,200 a year. In 33 years the interest alone amounts to $39,600 and he still owes the principal, $20,000. The principal and interest amount to $59,600.

THE NEW PLAN

The farmer borrows $20,000 on the amortization plan, authorized by the Federal Farm Loan Act. To amortize is to "kill off." This means that the mortgage pays out by the time it matures. As shown in the table on the next page, he pays $700 every six months, for 32½ years, and then six months later he pays $584.60. This totals $46,084.60.

THE OLD PLAN—Summary

Interest on $20,000 at 6% for 33 years	$39,600.00
Principal still unpaid	20,000.00
Total	$59,600.00

THE NEW PLAN—Summary

Sixty-five payments of $700 and one payment of $584.60	$46,084.60
You save on a $20,000 loan, were the principal paid under the old plan	$13,515.40

This comparison of the old and the new plans for long-time farm loans illustrates what a farmer borrowing according to the illustration would save by taking advantage of the Joint Bank's cooperation. Note that under the new plan the farmer would save $13,515.40 on a loan of $20,000 at 6% for 33 years. At the same time the country banker gains the advantage of having his funds free to lend out for temporary needs, which enables him still to accommodate the farmer and also turn his money quicker, with a resulting increased profit.

land is paying a much lower rate of interest than the farmer on the 5% land. How the interest works out for a 6% loan is illustrated by the table in Figure 89.

The rate reflects the quality of the security. Investigation indicates that practically all of the difficulties and losses incurred in farm mortgages can be traced to placing loans in new and untried communities.

The importance of knowing the strength of your community in making loans will be discussed in the following chapter. Here, however, has been suggested the way the Farm Loan Act meets the needs of both the banker and the farmer—enabling the one to use all his funds for short-time loans and to extend every-day help to the borrower, and affording the other the opportunities to obtain funds over long-term periods without inconvenience.

CHAPTER XI

HOW TO JUDGE A FARM'S EARNINGS

FOR exactly the same reason that he requires from merchants and manufacturers a financial statement to indicate the risk, the earnings, and the financial details of each business, the banker wants to know from his farmer customers the earnings, the risks, and the other important details of their farms.

Other factors being equal, the rate of interest in rural credit may be an index to the safety of farming in any particular district. In other words, the banker may find that the lowest rate is current where farming is carried on at the least risk. High rates often attend the lending of money in communities where the element of safety is somewhat lacking. This may be true of farms, growing almost exclusively one crop, with an insufficient amount of food and feed supplies needed to keep the family and the live stock going.

The owner of a food, feed, and cotton farm, receiving 8 and 10 cents a pound respectively for cotton, is safer by a margin of $204.78 and $138.08 than the owner of the all-cotton farm, and he therefore has a better basis for bank credit.

Since farming is purely local, the annual investment cannot be divided as to place, but can be divided as to crops. Therefore, progressive bankers try to persuade each farmer to divide his crops wisely, where possible, during the period of the loan. Unquestionably, this will give greater protection to the paper. A sufficient production of food and feed crop should be assured.

However, the amount of land that is given over to one crop should not, it has been estimated, exceed 50% of the cultivated land.

For a farmer to plant all of his ground in one crop, whether it be tobacco, wheat, corn, cotton, or any other one crop, is usually considered risky for credit and uncertain for security to meet bank requirements.

All one-crop farming, investigation indicates, impoverishes the fertility of the land, lessens the total crop yield for meeting payments, and increases the hazards of drought, of too much moisture, and the ravages of insects and disease. Hence, the land of security may be so reduced by one-crop farming that the property would not sell for enough to make the loan payments.

Therefore, considered from any angle, this subject, dealing with the capacity of a farm to earn a suitable and an assured profit, is highly important to the banker, whether in connection with short-time or long-time farm loans. In making a long-time loan, 50% of the appraised value of the land might be at the time an ample margin of security, but the question is, will it be ample in 10 or 20 years if unwise farming is permitted? If safe methods are guaranteed when the loan is negotiated, the security naturally increases in value instead of declining. The fertility or yield of the soil increases and the payments are correspondingly sure as they come due. Therefore, the banker and farmer both benefit by the "safety" requirement. Not only that, but the probable earnings can be more nearly estimated.

The question naturally arises: Would the total percentage of production of any crop now grown on more than 50% of the farm land in a one-crop country, say potatoes, be diminished if only 50% of the cultivated land be grown in potatoes? Investigation indicated that half the acres now farmed, if farmed better, and manured better, on the basis of safe farming, would produce as many or more potatoes and a

more stable annual crop. The banker would, therefore, find it easier to finance the borrower.

In order to determine more accurately the facts regarding crops, a Texas bank uses a crop credit sheet (Figure 90) which all applicants for farms loans are asked to fill out. This statement indicates whether the farmer is doing safe farming or unsafe farming. In addition to blank spaces for assets and liabilities, it has blanks for a detailed statement of the various crops, for the number of acres grown, as well as space for other crop data. From these facts is determined the safety of the farming system by the rule printed on the statement sheet as follows:

"Safe farming for liquidating a loan is had when the cultivated land of the farm, planted in one crop, does not exceed 50%, or, when sufficient acres of the farm, as shown by a crop rate sheet, are planted in food and feed crops, with provision made for the necessary poultry, milk, cows, and hogs to supply the family and stock on the farm with food and feed, and to maintain the soil, and the balance of the cultivated land planted in crops for market, or for feeding stock for market."

If the information supplied by the borrower complies with this rule, it may be safely concluded that he will be able to liquidate a loan made for production purposes as it comes due. This crop statement supplies the same essential financial data that the bank requires of the merchant. It also allows the banker easily to point out to the applicant any unwise feature of his farming methods.

In Figure 91, for example, is given an illustration of the use of the crop rate sheet. Farm number 1 is conducted according to the rules for safe farming; farm number 2 is run contrary to the rule, and this unsafe farming is frequently the custom throughout the cotton districts of the southern states. Both farms are unit farms—that is, each contains 40 acres in cultivated

FINANCIAL STATEMENT - FARMER

IMPORTANT – Please fill all blanks, writing "no" or "none" where necessary to complete information.

Name _____ To the _____ Bank

Address _____

For the purpose of obtaining a line of credit with you not to exceed $_____, I tender the following statement of my farming business as of _____ 191____, and agree to notify you promptly of any change affecting my ability to pay.

PROPERTY OWNED BY UNDERSIGNED	Dollars	Cents	DEBTS DUE BY UNDERSIGNED	Dollars	Cents
Cash (on hand and in banks)			Notes secured by chattel mortgages (list below)		
Notes due me (amount collectible)			Payable to above Bank Due _____ Secured by _____		
Accounts due me (amount collectible)			(Describe Security)		
Farm products; grain, cotton, and so forth, at market value (list on other side)			Payable to _____ Due _____ Secured by _____		
Live stock – market value (list on other side)			(Describe Security)		
Machinery and tools (list on other side)			Payable to _____ Due _____ Secured by _____		
Farm lands (describe on other side)			(Describe Security)		
Other lands (describe on other side)			Notes due to above Bank unsecured		
Improvements on farm (describe on other side)			Other notes due by me		
City real estate (describe on other side)			Accounts due by me		
Other assets (describe fully)			Mortgages or liens on real estate owned (describe in space provided on other side)		
			Other debts (describe fully)		
			Net Worth		
Total			Total		

Amount of the assets listed above which are exempt by law _____ $_____

Amount for which I am liable for partnership obligations _____ $_____

Amount of the assets listed above which are pledged to secure my debts _____ $_____

Amount for which I am liable on notes and accounts, not included in above statement, which have been transferred to banks or others _____ $_____

Amount of liability incurred by indorsement or guaranty to accommodate others _____ $_____

Amount of liability on bonds, leases or other unfinished contracts _____ $_____

Amount of insurance carried on farm products $_____; on machinery and so forth $_____; on improvements $_____; on other assets $_____; and on my life $_____ in favor of _____

Number of years in present business _____ Number of years at present location _____

I solemnly declare and certify that the above statement, and schedules on opposite side are a true and correct account of the condition of my business on the day above stated.

Witness my hand, this _____ day of _____ 191____

WITNESS:

_____ (Signature) _____

NOTE: If you have ever failed in business, attach a complete explanation and state basis of settlement with creditors.

(Fill Blanks on Other Side)

Figure 90: These two pages show what practically amounts to a crop credit sheet form used by a western bank to get all the facts about a farmer borrower's crops and financial standing. While the first page is made up like a financial statement, it is so simply worded that the

LIST OF REAL ESTATE AND IMPROVEMENTS OWNED, WITH INCUMBRANCES THEREON.

(Listed in totals on other side.)

Acreage or Dimensions	Location	Description of Improvements	Valuation		Mortgages or Liens		Title to Property in Whose Name
			Assessed	Actual	When Due	Amount	
			$	$		$	

LIVE STOCK.

(Listed in total on other side.)

	Horses	Mules	Cattle	Hogs	Poultry	Sheep	Goats			Total Value
Number										
Value	$	$	$	$	$	$	$	$	$	$

MACHINERY AND TOOLS.

(Listed in total on other side.)

	Wagons	Cultivators	Mowers	Threshers	Engines	Binders	Other Tools	Total Cost
Number								
Cost	$	$	$	$	$	$	$	$

Less Depreciation $_____

Actual Value $_____

FARM PRODUCTS.

(Listed in total on other side.)

Corn $_____ Oats $_____ Wheat $_____ Hay or Forage $_____ Fruit (Dried or Canned) $_____

Cotton $_____ Wool $_____ Potatoes $_____ Meat $_____ Other Products $_____ Total $_____

AVERAGE EXPENSE AND YIELD.

	Cotton	Corn	Wheat	Oats	Forage	Other (Describe)
Average yearly expense per acre for plowing, planting and working crop prior to gathering	$	$	$	$	$	$
Average yearly expense per acre for harvesting	$	$	$	$	$	$
Average yield per acre	Bale	Bushels	Bushels	Bushels	Tons	

STATEMENT OF FARMING OPERATIONS, OR CROPPING SYSTEM.

Farm is located where _____

Number of acres in farm _____ Number of acres to be cultivated _____

Number of people living on farm _____ Farm is owned by _____

I am to pay as rent _____

Crops and Stock to be Produced

Acres in corn (legumes interplanted)	Acres in peas or beans	Acres in vegetable garden
Acres in oats (legumes following)	Acres in forage crop and kind	Acres in other crops and kind
Acres in wheat (legumes following)	Acres in hay crop and kind	Acres in pasture
Acres in cotton	Acres in potatoes	Acres in bearing fruit
Acres in grain sorghums	Acres in rye	Total Acres
Number beef animals to be marketed	Quantity fresh fruit for marketing	Quantity fruit and vegetables to be canned
Number of hogs to be fattened	Quantity dried fruit for marketing	Loads manure to be used on crop
Number sheep or goats to be marketed	Quantity poultry and eggs to be produced	Tons commercial fertilizer to be used
Pounds wool to be produced	Number of cows in milk	

NOTE. The character of the Cropping System of a farm business has a credit value of the highest importance to both the farmer and the lender; and as farming is the annual investing of capital and labor at one place, safety requires, as in other investments, that all the capital and labor be not invested in one thing, or in the production of one crop.

In order that farming operations may be conducted on a safe and profitable basis every year, diversification is absolutely necessary. Every farmer should raise enough poultry, hogs, milk cows, vegetables and fruit to supply the family with most of their necessary food. A sufficient number of acres should be planted in feed crops to feed the stock on the farm or to feed stock for the market, if desired: part of the land should be planted in food crops for the market and the balance in other crops, BUT NOT MORE THAN 50% OF THE CULTIVATED LAND SHOULD BE PLANTED IN ONE CROP. Such a plan should enable the farmer to pay his debts promptly every year and result in greater prosperity for him.

farmer finds little difficulty in filling it out satisfactorily. On the reverse side are spaces carefully arranged to enable the customer to list completely all the facts regarding his property, his live stock, machinery, average yield, including the division of his crops, and so on.

area, each farmed by families of five members, with the help of two work horses.

Now, on farm number 2, cotton is planted entirely. Figuring the crop on the basis of one third bale to the acre, at 8 cents a pound, this farm has an income of $460; at 10 cents, $560.

The number 1 food, feed, and cotton farm, yielding one third of a bale to the acre, at 8 cents a pound, has an income of $664.78; at 10 cents a pound, $698.08. This fact is, as one may see at a glance, mighty important for the banker to know.

HOW LAND IS APPRAISED TO DETERMINE ITS OWNER'S BORROWING CAPACITY

The gross income of these two kinds of farming—safe and unsafe—show that one is safe and profitable regardless of the price of cotton, whereas the other is unsafe whatever the price of cotton, and does not equal the other in income until the product has reached a point where it sells for 15 cents a pound.

Consequently, farm number 1 is so safe that the operator can borrow at the bank the money he needs for his crop production—whether he be owner or renter—and pay cash for implements or other supplies. He can borrow at his pleasure, can buy with cash at a lower price and get more for his money.

The all-cotton farmer, however, has his food and feed to buy for his family and stock, and if he pays cash out of his cotton crop for the food and feed that the other farmer grew on his farm, then the all-cotton farmer should be charged with these food and feed crops and the other farmer credited with them at the higher price the merchant charges.

The earning power of the land is therefore a large factor in determining the size of the loan, although many of the smaller bankers, investigation indicated, based their appraisals on little more than opinions or

guesses. Inasmuch as there is usually a security margin of 50% to 60% over the amount of the loan, with only meager competition in lending, and steadily increasing land values, bankers are nearly always willing to rest their judgment on their broad general knowledge of the territory or on casual observation.

With the change that accompanied the enactment of the Federal Farm Loan Act and the incorporation of the Joint Stock Land Banks, as described in Chapter X, bankers face a new problem requiring definite and systematic control.

Under the old method of appraisal, when inspectors visited the land to be mortgaged, there was seldom any direct effort to find out exactly the earnings of the farm. This naturally resulted sometimes in establishing soggy valuations, and while the lenders were usually protected on account of the big margin already mentioned, the size of the loan was nevertheless governed by unsound practice.

Figure 92, for example, shows the wide difference of opinion among appraisers whose judgment of farms was based largely on guesswork. This tabulation embraces seven farms where farm loans were made, and where later the earning capacity appraisals were taken. After this, four experienced farm loan men, who were without information as to the earning capacity results, ranked each loan according to its relative desirability. These four appraisers had presumably a broad knowledge concerning the seven farms that were mortgaged, yet it is interesting to note that in ranking their value they differed sharply. When the reports of these appraisers were filed, the bank which made the loans recognized the absolute necessity of working out a plan that would show at a glance the earning capacity of each farm.

"We selected certain regions for loan territory," said this banker, "and then proceeded to establish values

INCOME OF THE FOOD, FEED, AND COTTON FARM

1,000 lbs. hogs at 7c (fed 100 bu. corn, deducted below)		$ 70.00
50 laying hens, fed 40 bu. corn, each hen produces 6 doz. eggs per year at 15c, 90c each hen		45.00
(Price of corn deducted below.)		
100 young chickens raised, 20c		20.00
2 cows, 1 constantly in milk, ¾ lb. butter daily—273 lbs. butter at 20c		54.60
2 gallons buttermilk daily at 5c gallon		36.50
(Fed 6 tons hay and 2 tons cotton seed, price deducted below.)		
2 calves raised		20.00
1 acre of fresh vegetables in succession, and for canning worked by the plow		75.00
12 acres cowpeas in corn for food and feed, 4 bu. acre—48 bu., at $1.00 bu		48.00
¼ acre sweet potatoes—80 bu. acre—20 bu. at 50c		10.00
¼ acre syrup—100 gals. per acre—25 gals., at 50c		12.50
12 acres pumpkins and cushaws planted in corn for food for man, hogs, cows and horses		10.00
5 acres sorghum, 12½ tons, 2½ tons to the acre, at $8 ton		100.00
12 acres corn stover, corn cut and shocked as soon as mature—as is done in the North—4 tons feed at $6		24.00
The poultry gets a large part of the food from waste of the kitchen and barn lot, and does not need all the 40 bu. corn charged to it.		
100 bu. corn will feed the two mules, at 70c bu		70.00
40 bu. corn fed the poultry at 70c		28.00
100 bu. corn fed the pigs for pork at 70c		70.00
Total 240 bu. corn grown on 12 acres—20 bu. acre		$693.60
Deduct 40 bu. corn fed poultry	$28.00	
Deduct 100 bu. corn fed hogs	70.00	
Deduct 6 tons hay fed cows	48.00	
Deduct 2 tons cotton seed fed 2 cows	36.00	182.00
		$511.60
Cotton crop at 8c lb.—		
6.66 bales cotton from 20 acres, less rent, ¼ acre, 3.33 bales, leaving 3.33 bales at 8c	$133.20	
Seed, less ginning as above	19.98	153.18
At 8c for cotton, the income from food, feed and cotton farm		$664.78

Figure 91: "The banker has a right to find out what the farmer is planting before he grants him a loan, with a harvest as security," said the banker who carried out this plan. These crops sheets visualize the financial possibilities of two 40-acre farms, each worked by families of

FARM RATE SHEET

Name.....
Number in Family.....
Postoffice.....
Route.....

FOOD CROPS

No. of pigs and weight.	4 pigs for 1,000 pounds of pork
No. laying hens	50 laying hens or equivalent in other poultry
No. milk cows	2 cows, one in milk constantly
Area in vegetable garden	1 acre for constant supply fresh vegetable and canning
Cowpeas and other beans	To be grown in corn
Area sweet potatoes	¼ acre
Area for syrup	¼ acre sorghum or sugar cane
Pumpkins and cushaws	To be planted in corn for good food and feed
Pasture	1½ acres pasture. For winter pasture sow a grain between the cotton rows

FEED CROPS

Acres corn with cowpeas, corn shocked	240 bu. on 12 acres, at 20 bu. per acre; 48 bu. cowpeas, at 4 bu. per acre; corn stover, 4 tons
Acres in hay crops	12½ tons, 5 acres sorghum, Sudan or other hay
Total acres food and feed	20 acres

MONEY OR MARKET CROPS

Acres in cotton	20 acres
Acres in oats, wheat or other crops	
Number steers, sheep or hogs	

THE INCOME OF THE ALL-COTTON FARM

40 acres cotton, ⅓ bale, at 8c, 13.33 bales, less 3.33 bales rent	$400.00
Seed, after deducting $3 ginning, 1,000 lbs. at $18, $6 bale left	60.00
Total value of cotton crop of all-cotton farm at 8c	$460.00

five members, with the help of two work horses. The first plan is operated along safe principles, that is, not more than 50% of the entire cultivated acreage is given over to one crop, while the second involves a risk, the entire cultivated farm acreage being planted in one crop.

TABLE OF FARM APPRAISALS

Farm No.	Size Acres	Appraised Value	% of Value Loaned	Earning* Capacity	A's Rank	B's Rank	C's Rank	D's Rank
1	270	28,950	38.0%	$3709 16.1%	6	3	1	2
2	200	25,000	40.0%	$1340 7.9%	3	2	4	6
3	85	9,222	43.4%	$1099 11.4%	1	6	6	3
4	212	21,520	46.5%	$ 443 5.2%	4	1	2	1
5	109	11,165	40.3%	$ 344 4.5%	5	5	3	5
6	160	18,400	43.5%	$ 46 2.9%	2	4	5	4
7	40	3,250	30.2%	$ 311 23.8%	7	7	7	7

* "Earning Capacity" refers to labor income, which means the amount the farmer has left at the end of the year for his actual physical labor and his managerial ability. The appraisers arrive at the figures by subtracting from the total farm income, the actual farm expenses and 5% on the investment.

Figure 92: This table, based on experienced appraisements, furnished one banker a record of seven farms which he could analyze at a glance.

To the Farm Loan Officer:

Concerning the country and immediate region in which the farm described on the opposite side is located, we make the following comments:

S or L	Name	Date	Acres	Amount	Location
S	L.D.S. to B.S.	9-2-18	40	$20 per A	26-51-13
S	N.H.G. to W.F.G.	4-14-18	80	80 " "	27-51-13
S	J.R.R. to J.C.R.	1-16-18	160	16 " "	32-51-13

We have no loans in this soil region.

Soil and Topography

Our data indicates that 76 acres of the upland soil on this place is Lindley. This is a light brown to gray loam 5 to 6 inches in depth with some glacial gravel. The soil ranks No. 21 on a basis of 29 divisions for the state and is not an acceptable soil upon which to lend unless it is in connection with a large portion of some better type of soil. The 4 acres of bottom soil may be Wabash, which ranks No. 3 for the state, and is a highly desirable soil upon which to lend.

Drainage and Levee — Upland - drainage excessive

Race	County
Value land	46
Improved acres	119
Value buildings	93
Value all property	7860
Total receipts	1007
Crop average	1917
Corn 31	23
Wheat 14	8
Oats 23	28

Remarks:

The indications are that most of this soil is of the Lindley type and before examination is made, further correspondence should determine that this is an outstandingly good farm for the region.

Follow-up cards Enclosed None

Very truly yours,

Field Division,

By S.Q.D.

Figure 93: Here is a report from a field inspector which helps one banker to pass on loans. It covers an unacceptable loan, giving important information; an acceptable one is reported on in a similar way.

on the basis of black and white facts in order to reduce our hazard and at the same time secure accurate and safe appraisals. First, we found it necessary to determine how poor or inferior a region might be and still be considered safe territory."

In order to determine how far down the scale it was advisable to go for loan regions, the bank considered several points as follows:

1. Fluctuations in land values more nearly follow a flat dollar-an-acre basis than a percentage basis. For example, if some general cause should make $100-an-acre land decrease $10 an acre, this same amount would probably go off the $50 land in the same region. In the first instance 10% of the value would be lost, in the second 20%. This places the greater hazard on the cheap land. The term "cheap land" refers to lands that have been settled long enough to have their agriculture thoroughly established, but despite this still remain low in price.

To get at the actual facts, this bank studied land values for all the states of the union, beginning with 1850. In the 16 states showing the most severe declines in land values from 1850 to 1910, the bank found that land valued at $30 an acre and over, suffered an average loss of 13%, while that which was valued at $30 an acre and less, lost 40% of its value.

2. The rate of "turnover," that is, the number of buyers for cheap land, is much lower than the rate for high-priced land. This, for example, is shown by the fact that in many good sections of Iowa, where values are exceptionally high, land to be sold in settling estates, foreclosures, or properties to be disposed of outright, are sold at auction. Prices thus obtained by this procedure are for the most part entirely satisfactory. This practice is not usually followed in disposing of parcels of poor land.

3. Profits from operating cheap land are generally small or are entirely lacking because production is lower, and the cost of farm equipment, the farm operations, and the prices for farm products are seldom if ever based on the price of the land or on the cost of production, but they are practically alike for all farms within a given region.

4. On cheap land the relative investment in non-productive equipment, such as houses, barns, machinery, and work stock, is greater than on high-priced land. In one of the better counties of Missouri, which is typical, the average value of improvements on each farm is $1,998, 8.7% of the farmer's capital being thus invested. He has on the average $388 worth of implements, which is 1.7% of his investment. In one of the poorer—not the poorest—counties, the average value of farm improvements is $312, which is 15.3% of the total investment, and the machinery on each farm is worth only $74, or $3.6% of the investment.

5. Cheap lands support poorer and fewer roads, railroads, and cities; hence marketing facilities are poorer and costs greater.

6. The cheap lands have fewer and poorer schools and churches, but they cost the individual more. In one school district, for example, the land is good and comparatively productive, as the assessed valuation of $138,560 shows. Across the road from this district is another in which the land is poorer, for its assessed valuation is only $25,065. Let us see what it means to live in one or the other of these districts:

District Number	Valuation	* Levy Assessment	Months of School
49	$138,560	$0.30	8
50	25,065	0.65	5

* This is what it costs each farmer in taxes for every $100 unit of valuation in his property.

District Number	Teachers' Salary	Value of Building	Value of Equipment
49	$50	$1,200	$300
50	40	400	200

7. Loans average smaller on cheap land, and the percentage of acceptable ones is less, while the cost of making them is, of course, the same; therefore, profits for the banker are less.

8. Farm products are not as great on cheap lands; hence interest payments are not as certain, and therefore the risk to the banker or lending company is increased considerably.

9. Cheap land deteriorates much more rapidly, with the same degree of misuse, than does high-priced land, hence there is a greater tendency to completely abandon the cheaper lands.

10. The margin of safety, or protection in dollars per acre, is less on cheap land than on high-priced land and this margin decreases in direct ratio to the decrease in the value of the land.

If, for example, a $50 loan is made on land valued at $100, there is a margin of protection of 50%, which amounts to $50 an acre. If $20 an acre is loaned on $40 land, the same percentage of protection is obtained, but only $20 an acre remains as a safety factor. This is only 40% of the margin in the first case. One should view the significance of this statement in the light of the fluctuation of land values.

11. Investigation indicated that figures taken by experienced loan men show that it takes about 70% of an average $1,000 loan to cover all foreclosure costs and bring the loan back to a producing investment.

"Experience with collections upon farm land mortgages averaging $1,000 each," says a Kansas banker,

"shows that the cash advance usually required to finance a default through to a judicial sale, and to place the purchaser in a position to receive an income, will, in all the states where there is in force a stay or an exemption law, average, in terms of crop season years at 5% a year, as follows:

Average period of default before collection proceedings begin (1 year)	5%
Average period of court proceedings before judgment (1 year)	5%
Average period of stay, redemption, and sale (1 year)	5%
Percentage of attorney's fees and costs, in proportion to total amount of loan	15%
Costs of repairs to procure a competent tenant	15%
One year period after possession before an income is assured	5%
Taxes, four years—rate of 5% a year on principal of loan	20%
Total percentage of delinquency to principal of loan	70%

Stated in dollars, the capital required to finance a default is $700 per $1,000 in default.

Take for example a 100-acre farm, worth $40 an acre: the maximum loan would probably be $1,500 to $2,000. If foreclosure expenses were about 50% of the loan, it would leave an equity, above the loan and expenses, of $1,750 to $1,000 or $17.50 to $10 an acre, which is the margin desired to cover all possible losses of buildings, decline due to forced sale, and faults of appraisement.

After the banker determines where his loan territory shall be, the next problem is to find out minimum values that will be considered safe. Let us consider now how the bank surveys a state when it is on the lookout for loan regions with a future. The first step is to get a clear view of the entire region and this is done by means of trial data, based upon an initial study of the territory. The following tabulation, based upon trial data, for instance, shows that county A is one of the best, that county B is one of the poor although acceptable ones, and that county C is one that was finally eliminated after the examination:

	County A	County B	County C
Value of land per acre	$79.79	$43.06	$12.55
Acres per farm	152	126	129
Improved acres per farm	141	109	59
Value of buildings per farm	$1,707	$1,011	$440
Percentage of investment	10.5%	12.8%	16.2%
Total value of all property per farm	$16,272	$7,903	$2,714

Thus, the farms in county A are worth nearly twice as much as in county B and six times as much as in C.

The difference in the number of acres in each is not great, but the contrast in improved acres is decidedly marked. The farmers of county A own and pay interest on only 11 unimproved acres, or 7%, while those of county C average 70 unproductive acres each, which represents 54% of their land. This disadvantage is serious. In each instance it represents practically $878, 5% of A's capital, but 32% of C's.

With this information before him, the banker is ready to begin a personal inspection of the prospective loan regions. When he undertakes the field trip, he is able, by previous study, to throw out all undesirable sections. He also has a more definite idea of what to find on his trip, since he has, of course no reason for traveling from "pillar to post."

An instance will show the advantage of this plan. On his first investigation in one county a banker was accompanied by another banker and a farm loan man, both of whom were familiar with the territory. Previous studies had shown him that a certain section of the county lay under water for a season every year and that another portion was supposed to be a white clay deposit and water-soaked soil. Without displaying any knowledge of these conditions, or directly asking about them, the banker tried to get some volunteered information. He missed his aim. Finally he asked some direct questions and said he wanted to see these sections. His insistence brought forth from

STATE RANK 1 a, on 10 Division basis
STATE RANK 1 on 29 Division basis
SOIL NAME Marshall

1. KIND Silt loam — upland
2. COLOR Black
3. DEPTH 15 to 22 inches
4. SUBSOIL Dark brown silty clay loam, comparatively porous, allowing excellent drainage
5. TOPOGRAPHY Gently rolling
6. DRAINAGE AND OVERFLOW Well drained
7. DROUGHT RESISTANCE Very high drought resistance -best in state
8. YIELDS, CORN; Range 40 to 80, Aug. 55 bu.
   WHEAT; Range 18 to 30, Aug. 22 bu.
   OATS; Range 15 to 60, Aug. 30 bu.
   Clover and alfalfa do fine
9. CROPS ADAPTED All field crops including alfalfa; and it is also an excellent fruit soil
10. TIMBER Prairie
11. STRONG FEATURES High fertility, good surface drainage and easily cultivated
12. WEAK FEATURES No outstanding. Occasionally, seepy spots will be found in some fields
13. RANGE OF VALUES $100 to $250
14. LOCATION Atchison, Nodaway, Clinton, Saline; principally northwest Missouri
15. REMARKS Missouri's best upland soil type
16. SOIL FERTILITY

	Nitrogen	Phosphorous	Potassium	Lime Req.
Stand soil	5,000 lbs.	2,000 lbs.	30,000 lbs.	
Marshall soil	3,683 lbs.	1,674 lbs.	33,720 lbs	3,815 lbs.
Marshall subsoil	1,966 lbs.	1,549 lbs	33,409 lbs.	2,637 lbs.

Soils—
Description and Classification
Field Division

Figure 94: One bank always obtains this sort of description of any property offered as security for loans. In this way sufficient protection is practically assured for this or for almost any other bank which adopts the plan because each farm is appraised exactly and scientifically.

his companions a frank confession of actual conditions and he naturally found himself talking with them on a basis of absolute candor and confidence.

After the preliminary study and the first field investigation have been finished, another one is made, its results being final. Practical farm loan men also usually ask about the personal side of a loan. This is often a hard question to answer, although important.

The best insight into a man's ability, from a loan standpoint, is a study of his business methods, and their results. Successful farmers, for instance, follow certain well-defined principles of agriculture. The average figures of earnings for each county show what farm management conditions exist there, so when investigation proved, for example, that the farms of three counties were getting results as indicated below, the banker who gathered the figures naturally felt that their farm management ability compared closely to the conditions brought out by the trial data, and that county A was highly satisfactory, county B barely acceptable, and county C unacceptable.

	County A	County B	County C
Productive work days on each farm	252	219	103
Average yield of corn for 10 years, 1906-1915, in bushels	32	22	23
Average yield of wheat for 10 years, 1906-1915, in bushels	17	15	11
Average yield of oats for 10 years, 1906-1915, in bushels	29	22	20
Percentage of time corn raised at a loss	10%	70%	50%
Percentage of time wheat raised at a loss	10%	30%	70%
Percentage of time oats raised at a loss	40%	70%	90%
Amount actually received for every $100 worth of feed fed to live stock	$143	$109	$89

Total farm income.....	$2,500	$902	$244
Total farm expenses.....	$726	$311	$86
Amount left for the farmer's labor after paying 5% on his investment.....	$1,044	$270	$142

These figures are taken merely as an example to show a few of the points considered in this kind of test.

After all the investigations and tests are completed, the facts are set forth in a report, which goes to the officers of the bank, who then decide as to the localities to be selected as loan territory.

The experience of this bank shows that thorough previous investigation is nearly half of the individual appraisal, and further, that most of the data gathered in these tests throws light on each individual loan.

MAKING SURE THAT THE FARM LOAN OFFICER GETS ALL THE NECESSARY FACTS

When an application is received, it is checked in, then passed to the field division. In Figure 93 is shown information that helps the appraisers, illustrating an apparently unacceptable loan. This information is addressed to the farm loan officer. After he looks into it, he decides whether the examination shall be made. If it is to be made, he turns over this report and on the other side fills in a blank directing the proper appraiser to make the examination. When the field man gets this form, it is easy to understand, and he proceeds with his examination on a basis of unbiased fact. He notes what the actual farm sales and previous farm loans have been in the neighborhood.

A statement describing the quality and the grade of the soil in the state is shown, as well as one showing just how rough and broken or how level it may be. If the farm is subject to overflow, is behind a levee, is in a drainage district, or was under water, these facts are brought out in Figure 94.

By giving this advance information to the field men, they know, with no small degree of certainty, the conditions actually surrounding each farm inspected. They are not led astray either by any optimistic agent or by a borrower who is intentionally endeavoring to mislead or deceive.

Each field man is "master of ceremonies." He is equipped with a map of the county, so that he will have no doubt as to the location of the farm he is to inspect, a soil auger for examining the subsoil, and a camera for making photographs of the improvements.

Whenever an applicant agrees to make certain changes or additions after the loan is completed, he fills out a follow-up card stating just what he proposes to do, and when. This is kept on file until another loan is to be inspected near by; then the field man takes the follow-up card and, as he passes the farm in question, he stops to check up on the farmer's promises.

Here then you have the methods employed by progressive bankers to ascertain farm earnings and to find out to a reasonable certainty the day-to-day history of the borrower, just as you do of the merchant around the corner.

CHAPTER XII

INCREASING THE FARMER'S BORROWING POWER

WITHIN five years after the Bank of North Lake, North Lake, Wisconsin, opened, its deposits increased from $96,025.37 to $302,439.72. This growth is especially significant since the bank is located in a town of only 150 people and depends almost entirely on the patronage of farmers. There are several larger banks in the territory which create sharp competition. "Advertising and Service," a volume of the Shaw Banking Series, of which this book also is one, tells how this bank attracts new business in general. It is worth while considering here the specific methods that have helped it gain the recognition and business of rural borrowers.

As already indicated in Chapter XI, a scientific appraisal of the farm, its products, and their "dollars and cents" returns, is a protection to the bank which lends money as well as a benefit to the borrower, who thus learns definite methods for increasing his profits. Realizing the value of this knowledge, the directors of the North Lake bank decided to provide the farmers in its immediate territory with a specific plan for improving their methods of farming.

First, a free course in farming, like that described in the volume on advertising and service, was given under the direction of a professor from the state agricultural college. The outgrowth of this course was the organization of the North Lake Farm Management Club in which 22 farmers, stimulated by the

encouragement of the bank, banded together for the purpose of studying business management in farming.

The members agreed to take a complete inventory of their farm property, showing how they stood both at the beginning and at the end of the year, and to keep a record of all their financial transactions for the benefit of the bank as well as for their own guidance. At the end of the year they summarized their account books and turned them over to the professors at the college of agriculture who checked and tabulated the data. Of the 22 members who started to keep accounts with the assistance of the bank, 20 completed their records. A demonstration of the products on these 20 farms was then held with the cooperation of the bank.

"We found that an understanding of the conditions on our farm helped us to pick out our weak and strong spots," said one farmer who was a big borrower. "We also found that by conducting our affairs in a systematic way, the bank could more easily extend us accommodation. We are not only making more money, but we are finding it simpler to finance ourselves."

Naturally this development boosted the business of the bank and made its lending more satisfactory and profitable. It is, therefore, not enough for the banker in the rural community to be at his desk from 9 a. m. to 3 or 4 p. m. He has a chance to be the farmer's chief financial adviser by studying his problems just as this North Lake banker has done.

As a matter of fact, one of the most promising and logical means of bringing about cooperation, investigation showed, is for the banker to encourage and assist the farmer in keeping his accounts. This helps the farmer to conduct his business according to business methods and it enables the banker to pass better judgment on the financial needs and investments of the rural borrower.

The farmer should not be granted loans merely because he has sufficient security, but because he and the banker have foreseen that the investment will be profitable. This means greater satisfaction to the farmer and greater business for the bank. If the banker can sit down with the farmer and study the results on the farm for a year, as shown by the farmer's record (Figure 95), both will see the weak and strong features of the year's business and together they can tell where to make future investments that will bring the largest returns. There is, of course, no reason for making further investments in the class of cattle now owned if their feed and care results in a loss.

The experience of the Wisconsin bank indicates that this type of work not only helps the farmer, but brings the bank more business. While the results of one year cannot be taken as a criterion, many of the men in this farm management club increased their banking business from 10 to 25% during the first year, and the banker, therefore, is well rewarded.

In the last three years the bank has added from 125 to 140 new accounts, including checking and savings accounts, and certificates of deposits. These amount to about 25% of the increased business.

Let us turn now to the methods employed by this bank in extending its lending field. The bank makes its first appeal by calling interested farmers together in a meeting and explaining the plan already outlined. This can be done in any bank by someone who understands the problems of the farmer and knows the financial questions involved. At the close of the meeting the leader distributes statements like those shown in the volume on advertising and service. The farmer uses these for his inventory and financial accounts. These reports are made out annually and returned far enough in advance for a designated authority to check the records and figure out a factor sheet, like that shown

EFFICIENCY FACTORS

Ardmore County

FACTORS	Your farm	North Lake area 18 farms	County average 1917 35 farms	County average past 4 years 79 farms
Labor income.....		$1,025.14	$1,450.63	$1,672.42
SIZE OF BUSINESS				
Size of farm in acres.		145.3	144	
Total capital.....		$26,033.80	$23,812.40	$27,777.88
Operating capital.....		6,867.90	8,934.80	9,915.31
Investment in cattle..		2,706.00	4,409.00	
Number of cows.....		19.5	24	26
Farm receipts*.....		$4,401.30	$5,590.45	$6,548.43
Farm expenses*.....		2,274.87	2,901.38	
DIVERSITY OF BUSINESS				
Dairy products.....		$2,313.40	$2,947.28	$3,397.08
All live stock.....		1,154.80		
A. Sales.....			1,890.00	997.50
B. Inventory.....		-240.24	-289.90	
Crops —				
A. Sales.....		758.15	658.40	1,981.28
B. Inventory.....		471.91	552.56	
Miscellaneous.....		205.22	239.67	312.00
QUALITY OF BUSINESS				
Dairy receipts per cow		$113.43	$112.61	$112.70
Live stock receipts per cow.....		35.13	46.28	75.00

*Permanent improvements and live stock purchased are not included.

Figure 95: Where this comparative plan is used for determining the value of a farm the bank finds its loans to farmers profitable and safe. By showing the bank in this way just how he stands, the farmer under normal conditions adequately backs up his request for money.

on page 170, which will indicate the strong and weak points in the operation of the farm. This statement also provides space for the farmer to indicate the bank with which he does business.

The bank makes provision for a supply of farm account books to distribute to those of its customers who promise that they will keep their accounts and who back up that promise with a nominal membership fee. The management may adopt a permanent style for its account books. The farmer receives one after the demonstration of products, as his permanent record of the year's business.

The bank furnishes duplicate deposit pads for its customers who enter this work. It encourages these farmers to deposit all their receipts for sales, whether cash or check, and to indicate on the deposit slip the source of the receipts. The duplicate deposit slip retained by the farmer serves as his day-book record of his receipts. The bank retains the original deposit slips which serve a useful purpose in case the farmer should lose or misplace his deposit pad.

It is well for the bank to designate some one officer, possibly the cashier, to take the responsibility of keeping tab on the customers who promise to keep their records. He explains the difficult points, and encourages them to keep their records up to date. He can be of considerable help, when the time comes for the farmer to close his inventory account and to complete his summary, by offering the services of the bank's adding machines and operators.

The bank also acts as the medium through which the account books and the factor sheets are returned to the farmer. When the banker familiarizes himself with the factor sheets, he is naturally in position to interpret the results and he can serve further at this time. The two can talk over the farm activities and can plan investments that promise large returns.

It should not be difficult for the farmer to see the advantage of doing business with a bank which helps him to keep his records. In fact, by this cooperation the bank establishes a direct contact with its customers. It graphically shows the farmer the value of paying bills by check and of indicating on the stub the entire transaction in each instance. By doing this as well as by keeping a record of cash receipts on the duplicate deposit slip, the borrower has really a complete record of his transactions and the bank is enabled to keep tab on the progress of each depositor. The farmer should be made to see that no more important step can be taken in keeping his records than to handle his financial transactions through the medium of the bank.

HOW DEFINITE ACCOUNTING METHODS HELP THE FARMER TO LOCATE HIS WEAK FINANCIAL SPOTS

Urging the farmer to place his records in his account book regularly, the banker will simplify his own work and at the same time develop the farmer along business lines. With the check stubs and the daily records in the duplicate deposit pad, there is no danger but that the items can be properly entered even though they are left until the end of the year. Nevertheless, this is not a good plan. Furthermore, some idea of progress may be obtained by noting from month to month the totals for each column and comparing these with the corresponding totals for preceding years. The farm transactions are entered in the account book once a week, certainly not less than once a month.

The banker should be able to show the farmer the importance of carefully studying results.

The real value of work of this character comes when the records tell a definite result quickly and accurately. The factor sheet (Figure 96) which is figured out at the end of the year contains, as will be noted, a column giving the average results obtained from the records

THE FARMERS' FACTOR SHEET

Explanation of Terms

Labor Income represents what the farmer gets for his labor. It is what is left of the farm income after all expenses, including interest on the total farm investment, are deducted.

Operating Capital represents the investment in machinery, equipment, and live stock. It is the working or movable capital.

Cattle Unit represents one cow, two heifers, or two calves.

Diversity of Business indicates the distribution of farm activities or the number of enterprises in which the farm is engaged.

Quality of Business indicates efficiency or income per unit.

FACTORS	North Lake area 18 farms	Average 3 extra good farms	Farm C			
			Results	Diagnosis		
				Weak	Normal	Strong
Labor income (profits)	$1,017	$2,273	$146	*		
Interest on total farm investment	1,293	1,070	989		*	
SIZE OF BUSINESS						
1. Acres	145	127	130		*	
2. Total investment	$25,868	$21,400	$19,773	*		
3. Operating capital, amount.	6,868	5,862	4,473	*		
Percentage of total investment	26%	27%	23%	*		
4. Investment in cattle	$2,706	$2,302	$1,205	*		
Per cattle unit	97	86	65	*		
5. Number of cattle units	28.0	26.8	18.5	*		
6. Number of cows	19.5	18	11	*		
7. Farm receipts	$4,458	$5,465	$2,314	*		
8. Farm expenses	2,148	2,122	1,079		*	
DIVERSITY OF BUSINESS						
9. Income from crops						
A. Sales	$ 758	$ 812	$604	*		
B. Inventory	472	664	247			
10. Income from dairy products	2,313	2,343	752	*		
11. Income from live stock						
A. Sales	1,155	994	498	*		
B. Inventory	240	662	-218		*	
12. Miscellaneous income	205	327	181			
QUALITY OF BUSINESS						
13. Dairy receipts per cow	$113	$130	$68	*		
14. Receipts per cattle unit except cows	80	94	32	*		
15. Total receipts per cattle unit	105	117	51	*		

Figure 96: Where a farm management club was operated, as described on pages 171 and 172, this farmer's factor sheet proved of great value. Taking average figures of good and extra good farms it was not difficult to show clearly how near other farms approached the standard.

handed in by the farmers engaged in this work; alongside of this are the average results from a few of the best farms in the country. The third column contains the results obtained on the farm under consideration. The bank gives each farmer who comes into the work a typewritten copy of this sheet, and no one is given the results on any individual farm except his own.

Where a group of 20 or more farmers, with a view of studying the business interests of their farms, can be induced to band themselves together for the purpose of keeping their inventory and financial records in this way, it is simple to work out a factor sheet. This will serve to illustrate the manner in which the farmer's attention can be called to the factors which make for general success in farming, and it indicates also which of these factors need special attention on the individual farm.

This factor sheet in Figure 96 gives the average results obtained on each of the 18 North Lake farms. Next to this is a column giving the average results of three exceptionally good farms in the community. The next column gives the results obtained on Farm C, followed by an analysis of Farm C, showing its weak, normal, or strong features in comparison with the results recorded in the preceding columns.

The banker thus gains definite instruments for analyzing loans because he is enabled to pick out in each instance the strong and weak points of each farm in comparison with the average of the section and the average of the three best farms.

For instance, the factor sheet here shows that Farm C has sufficient acres; is nearly up to standard in total investment; is perhaps a little weak in operating capital; is certainly weak as to investment in cattle, in the number of cows, and in farm receipts; but is normal in farm expenses, when the volume of business handled is taken into consideration.

Under diversity of business, Farm C has a distribution similar to the others although below in amount compared to the average of the North Lake area and the three best farms. Under quality of business, Farm C is decidedly weak in returns per cow and per cattle unit. Before attempting to increase the number of cows on Farm C (this is a factor on which the farm is weak) an attempt should be made by the banker to help the farmer analyze the situation and determine why the returns per cow are low and whether they are not below the actual cost of production.

After that the banker can well consider helping the farmer to invest more money in cows in order to conduct a larger volume of business, with each unit producing its share of the profits. Until the farm is able to do this, it would appear to be unwise to lend money for increased cattle investment.

For a farm approximating the acre average, according to the factor sheet, it would look as if there were sufficient acres, sufficient investment in both total and operating capital, sufficient cows and sufficient investment in cows. There is then a possibility of increasing the receipts without necessarily increasing the expenses. Not much improvement can be expected in the income from crops. The income from dairy products might be increased a little, while the income from live stock might be increased considerably. The figures under "quality of business" seem to indicate that the average farm might increase the receipts of each cow to a certain extent both for dairy products and from the sale of breeding stock. In other words, investigation shows that the average farm can raise its standard by improving the quality rather than the quantity of its business. The banker sees these possibilities and is accordingly able to stimulate prospective borrowers.

In this way much is gained by seeing that every farmer studies the financial results obtained on his

FROM _____ FARMER

Address _____

TO RAHWAY TRUST COMPANY, RAHWAY, NEW JERSEY

The following is a FULL, TRUE AND ACCURATE STATEMENT of the financial condition of the undersigned on the _____ day of _____ 191 , and is made for the purpose of procuring credit from time to time from the above Company; and is to be regarded as continuous and binding as a basis of credit until replaced by another written statement or revoked in writing; and the undersigned agrees to promptly notify said Company in writing in case any change occurs that would materially reduce the responsibility of the undersigned.

In consideration of granting any credit by said Company, the undersigned agrees that in case of failure or insolvency on the part of the undersigned, or in the event of it appearing at any time that any of the following representations are untrue, or in case of the occurrence of such change as aforesaid or of failure to notify such change as above agreed, all or any of the claims or demands against the undersigned held by said Company, shall, at the option thereof, immediately become due and payable.

Further, that the exercise of or omission to exercise such option in any instance shall not waive or affect any other or subsequent right to exercise the same.

PLEASE ANSWER ALL QUESTIONS.

Money in bank			Mortgage on farm		
Money due me			Chattel mortgages		
Value of farm			Notes due bank		
Value of crops			Notes for live stock		
Value of live stock			Notes for fertilizer, seed and so forth		
Value of farm implements			Notes for farm implements		
Other investments			Other debts		
			Total debts		
			Net worth		

Of above notes, $_____ carried over from last year. If rented, what is annual rent $_____

I am accommodation indorser on $_____ worth of notes. Title of farm is in _____ name

Assessed value of farm, _____ $_____ Acres in farm _____

Life Insurance, _____ $_____ Acres under cultivation _____

Fire Insurance, _____ $_____ Principal crop _____

Chattel Mortgages given to _____

Do you grow your own grain, hay and bedding for stock? _____

Character of buildings _____

Age, _____ Married or Single, _____ How long on this farm, _____

Name and address of your Commission Merchant, _____

Remarks: _____

Signed. _____

Witness: _____ Date, _____

Figure 97: This financial history of a farmer applicant for a loan has proved of value to an eastern banker. When filled out the sheet gives the banker the essential facts governing the farmer's responsibility and standing as a credit risk. The statement is not difficult to fill out.

farm at least once a year and considers the possibilities there may be for improvement before he asks for a loan at the bank. In order to do this, it is necessary for him to keep records of his transactions, as already indicated. These records will furnish the data for making up the factor sheet which will serve to show how his business is going. They also help him to study the financial condition of his business and to make him a better risk at the bank. They will indicate the factors that are contributing largely to the success of the farm and will also unearth factors that may be keeping it from making satisfactory profits—an important consideration with all country bankers. Since the records will help the farmer to enlarge upon the more profitable enterprises and to cut down on those that are less profitable, the banker is naturally in position to increase his returns on loans.

UP-TO-DATE BANKERS AGREE THAT FARMERS SHOULD FURNISH FINANCIAL STATEMENTS

A simple agricultural credit form similar to that already described in Chapter IX can be used effectively in connection with a farm factor sheet. The banker thus gains the double advantage of knowing exactly the farmer's methods as well as his financial capacity.

"I have worked with the farmers of New Jersey, particularly in the southern part of the state," says one banker, "and I realize the difficulty, as well as the desirability, of getting statements from them. The simple statement that I am using embodies the essential information in plain language. (See Figure 97).

"The banks should help the farmer to see the necessity of some form of bookkeeping that will show him how he is getting along and make him understand that he is in business the same as a merchant or manufacturer. This will make the farmer feel free to go to the home banks for money needed to buy fertilizers, seed,

and implements, so that he can take advantage of the large discounts allowed for cash payments by the dealers in these commodities.

"The banks in our neighborhood are willing to furnish the farmers all the funds they need, but there must be evidence that they know how to farm, and there must be the financial statement to show that there is good reason to expect repayment. In other words, the farmer must be placed upon the same footing as any other business man to increase his borrowing power. The problem of making farm loans will then be greatly simplified."

CHAPTER XIII

SIMPLE METHODS FOR HANDLING FARM LOANS

IN order to record and look after farm mortgage loans to best advantage, it is necessary to provide a system that is simple and inclusive. This system should give the greatest possible freedom from detail, and should, at the same time, bring forward all the necessary data in a concise way.

Sectional differences matter little in the handling of the farm mortgage. Methods that are effective in New England, for example, can usually be applied to the Southwest, and vice versa. Yet investigation indicates that seldom any two communities follow the same practice. Some follow comprehensive and specific procedure and others are seemingly content to go along with the fewest records possible, feeling that elaborate methods may require more expense than is justified. This temptation to treat the mortgage loan transactions with meager clerical attention often leads to misunderstanding and sometimes loss. It is as easy to follow a definite and simple plan that will meet every requirement as it is to attempt a sharp abridgement of the records.

The problem, therefore, of handling the farm mortgage loan, once it is made, deserves the careful consideration of every banker. A middle western bank of $50,000 capital has worked out a plan that meets its immediate needs effectively. Doubtless, any bank in an ordinary agricultural community can use it with satisfactory results.

In adapting this plan, the bank naturally found that the first requisite was an adequate application form (Figure 98). Like most applications, the face of this form provides for a general description of the property. The reverse side is especially valuable since it carries a sectional map of the entire county in which the bank is located, thus enabling the banker to mark off the real estate that is offered as security for a loan.

The note or bond is one of the most important instruments in the negotiation of a mortgage loan and it is worth while noting that, in this form, two kinds of optional payment clauses are offered to the borrower, according to his responsibility and general standing.

One clause, for example, reads like this:

"Reserving the privilege of making payments of $100 or multiples thereof on any interest day, provided J. F. Hardin is given 30 days' written notice before date of such payment, and payments are not made with money borrowed elsewhere." The other reads:

"Reserving the privilege of making payments of $100 or multiples thereof on April 1, 1918, or any first of the month thereafter, prior to maturity."

Inasmuch as the banker's protection rests upon the caution and diligence employed in drawing the mortgage, it is natural to provide a form that is at once simple and safe. The mortgage form without the insurance clause is an interesting illustration of a clean-cut method. It reads in part as follows.

"If default be made in the payment of said note or interest, or any part thereof, or if the taxes assessed on said land become delinquent, or if any waste be committed on said premises, then the said second party or his assigns may elect to declare the whole sum due, without notice, and may proceed by foreclosure, or any lawful mode, to make the amount of said note, interest, cost, attorney's fees, and said taxes and interest on same, out of the aforesaid land."

APPLICATION FOR LOAN

I _____ of _____ Iowa, Postoffice do hereby make application to **J. F. HARDIN, Eldora, Iowa,** to make or procure for me a loan of _____ DOLLARS, for _____ years at _____ % interest, payable _____ annually at his office in Eldora, Iowa, and as security for said loan I, and my wife, if married, will properly execute, and deliver to him as he may direct, a note secured by a mortgage which shall be a first lien on the following real estate, to-wit: _____

Section No. _____ Township No. _____ Range No. _____ Hardin County, Iowa, containing _____ acres.

The buildings on said farm are of the following descriptions: _____

What are the buildings insured for? _____ What company? _____

The following is a general description of the said farm, as to surface, soil, occupancy, condition and so forth:

Crops growing or last grown on said farm:	Physical condition of said farm:
_____ acres in corn.	_____ acres smooth and level or gently rolling.
_____ acres in oats and wheat.	_____ acres are rough and broken.
_____ acres in tame meadow.	_____ acres have been plowed.
_____ acres in native meadow.	_____ acres are now well suited for plowing.
_____ acres in pasture.	_____ acres are timber land.
_____ acres in yards and roads.	_____ acres are bottom land.
_____ acres in _____	_____ acres are subject to overflow.
_____ Total acres in said farm.	_____ acres fenced.

_____ acres are now unsuitable for plow land, and cause is _____

Soil? _____ How watered? _____

_____ acres are sandy, gravelly or stony.

The premises are occupied by _____ If rented, rented under _____ lease to _____ until _____ rental _____

This farm is _____ miles _____ of the railroad town of _____ Iowa, which has a population of about _____. Distance to school _____ miles, church _____ miles.

The actual cash value of this farm is, per acre, $ _____

I own _____ horses, _____ cattle, _____ hogs, and a complete set of farm implements.

This money is wanted for the purpose of _____

My wife's name is _____ My nationality is _____, my age is _____ years.

I hereby authorize said J. F. Hardin, at my expense, to pay off for me any and all liens on said land, (except said mortgage,) and to make or procure an abstract of title to said land, and to have all corrections in title made so that said abstract shall show said mortgage to be the only lien on said land.

I declare that I owe no money for work done or materials furnished for improvements on said premises within the last ninety days, that I am in peaceful possession of said premises, that my title thereto has never been questioned, that there are no unrecorded deeds or mortgages for or upon said premises, and there are no unsatisfied judgments or suits or proceedings in bankruptcy pending against me in any State or Federal Court.

I understand the loan is to be granted on the representations herein made and I swear that said representations are true in every particular.

_____

STATE OF IOWA, Hardin County—ss.

Subscribed and sworn to before me by said _____ this _____ day of _____ A. D. 191__.

_____

Notary Public in and for Hardin County, Iowa.

Figure 98: A farm loan application form like the one shown here can be adapted to many banks. The face of it, as you see, is for a description of the loan, while the reverse side contains a sectional map to show the exact location of the property in its relation to other farm land.

The form with the insurance clause is equally desirable because it provides a process that is free from unnecessary detail. The paragraph covering the details in this instance reads:

"If said first parties fail to keep all the buildings on said premises insured in some responsible fire insurance company, to their full insurable value, payable to the legal holder hereof, or fail to deliver to J. F. Hardin said policy before noon of the day on which any policy on said building shall expire, or if default," and so on just as the previously quoted clause reads.

The certificate as to "claim of tenant" (Figure 99) affords an effective method for safeguarding the loan and eliminating the possibility of dispute. It is adaptable, experience indicates, to the needs of any bank.

After the papers already described have been properly filled out, the loan is ready for entry on the mortgage records of the bank. The loan register (Figure 100) provides for all the necessary information regarding the date of the mortgage; the notes, the due date, the interest, when due and when paid, together with space for remarks, if any, thus furnishing the essential data for every loan.

Once the papers are transferred to the records, the next step usually is to provide a method of filing so that every record bearing on the loan will be readily accessible. Frequently the banker has to refer to a mortgage loan, probably for some trivial reason, and he wants to have the papers in such condition that he can get any information quickly without extensive examination.

This arrangement is readily made possible by the use of an ordinary number 10 heavy manila envelop together with a folder of the same material, a trifle less than twice the size of the envelop. This folder is doubled along dotted lines and one half thrust into the envelop, the flap having previously been turned in

CERTIFICATE AS TO CLAIM OF TENANT

TO WHOM IT MAY CONCERN:

This is to certify that I, the undersigned, am in possession of the following described premises to-wit _____

_____

of Section _____, Township _____ North, Range _____ West of the Fifth Principal Meridian, in the County of Hardin and State of Iowa.

That I am in possession of said premises as tenant under the record owner thereof, to-wit: _____ of _____

_____ County of Hardin, and State of Iowa, and

That I claim no interest in said premises other than right of possession thereof under lease, which expires the _____ day of _____ 191__.

Dated this _____ day of _____, A. D., 191__.

_____
Tenant.

_____
Wife.

_____
Witness.

Figure 99: This certificate is an additional protection to the bank in making farm loans. It removes any possibility of disputes arising through any claim that a tenant might make against the property.

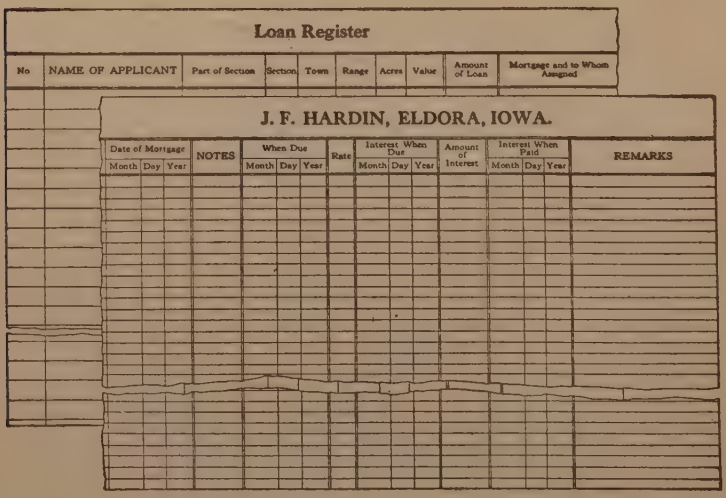


Figure 100: To cover on two open pages all the main points of a real estate mortgage loan, an Iowa banker uses this loan register. The headings, as will be noticed, make provision for the important facts.

or removed, thus providing two pockets. The one at the back contains the mortgage deed, the insurance policies, the certificates of title, and any other papers pertaining to the loan; the other pocket, which is accessible by merely lifting the folder, contains the note. This may be easily removed for the purpose of indorsing interest and other payments. The mortgages, each being placed in its appropriate wrapper, are arranged alphabetically in a convenient file.

A COMPLETE, SIMPLE SYSTEM THAT COVERS EVERY PHASE OF FARM LOAN ROUTINE

The blank half of the folder is, of course, used for the envelop partition, and the printed side is folded over the front of the envelop, as explained above. Space is provided for the name of the mortgagor and also for the names of those who may from time to time assume the mortgage by acquiring title to the property. There is also space to enter the book and page numbers of the district registry in which the mortgage is recorded, and for writing a brief description of the property, sufficient for identification. The remainder of the folder is devoted to spaces for entering the date when the loan is made, the amount of the loan, the dates and amounts of payments on the principal, and the balance due. The rate of interest is given in the upper right-hand corner.

A looseleaf ledger is used to index and keep track of the loans. It is a book 8½ by 11 inches made especially for the purpose. For convenience there are two sets of covers, one to contain the live loans and the other for those which have been paid. On account of the ease of operating the looseleaf book, the pages representing active accounts may be transferred to the closed file as often as is convenient.

The page, like the folder, has spaces for three names, in addition to that of the original mortgagor, to pre-

EXAMINER'S REPORT

To Schanke and Company:

I inspected the _____
of Section No. _____, Township No. _____, Range No. _____, in _____ County,
_____ containing _____ acres, on _____ 191__,
owned by _____

1. Describe fully land unfit for cultivation _____

2. If sandy, gravelly, stony or broken, any quack grass, or subject to overflow, describe _____

3. Quality and depth of soil _____ subsoil _____

4 The premises are occupied by _____

_____ (If tenant give expiration of lease and terms) _____

5. Did you talk with the borrower? _____

6. When did borrower buy this land? _____
What did he pay? $ _____

7 Was consideration cash, trade or under contract for deed? _____

8. What improvements since purchasing? _____

This land is divided as follows:

_____ acres in corn
_____ acres in oats
_____ acres in wheat
_____ acres in other crops
_____ acres in tame grass
_____ acres in good pasture or meadow
_____ acres ready for seed
_____ acres in timber
_____ acres in brush
_____ acres in grove and orchard
_____ acres wild land capable of cultivation
_____ acres unfit for cultivation
_____ Total
_____ acres level
_____ acres gently rolling
_____ acres medium rolling
_____ acres rough and broken
_____ Total

9. Tell what you were able to ascertain about the borrower, where he lives, his family, personal property, property, other land, debts, reputation, general appearance of farm and district, and so forth. _____

10. Tell about adjoining land values and sales _____

11. What are distances to railroads and inland markets? _____

12. How much is the drainage lien against the land, if any? _____

13. Is there an open ditch on the farm? If so, show on plat _____

14. Is it on a public road? Show on plat _____

15. General _____

16. Value of land exclusive of buildings, under ordinary terms of sale is $_____ per acre, or $_____

17. Of house $_____, barn $_____, granary $_____, other buildings $_____; Total buildings $_____

18. _____ Total value of land and buildings, $_____

I recommend a loan of any sum up to $_____ per acre, or $_____, as safe and desirable.

Examination cost $_____

_____
Examiner

Figure 101: An Iowa banker considers it unsafe to grant a loan without first having the security properly examined. The above report shows all the details necessary to pass on the safely of the transaction. Accordingly the lending officers can render a final decision without delay.

FARM LOAN AGENCY AGREEMENT

THIS AGREEMENT, Made between Schanke & Company, a corporation, of Mason City, Iowa, party of the first part, and

party of the second part,

WITNESSETH That, in consideration of the premises, first party will receive applications for or consider the purchase of first mortgage real estate loans and furnish money for such loans as it may approve or purchase on such terms as may be agreed to in writing, which terms shall include full compensation to second party for all duties to be performed by him under this contract.

In the negotiation of mortgage loans under this agreement, the second party covenants and agrees

I. That all statements of facts made in applications, examiners' reports, or in any written letters or other documents signed by second party, or any one acting in their behalf, shall be true and substantially correct, and no essential facts concealed

II. That, where the title is based upon a commutation or final proof, second party will repurchase the loan at par and accrued interest with other advancements, upon demand in case final proof is cancelled or any contest is filed against the entry, or if within two years from the date of the receiver's receipt patent has not been issued.

III. That said second party will furnish to first party without charge an abstract of title completely prepared by an abstractor, acceptable to first party, which will show good and merchantable title in fee simple in the borrower, free of mechanics' liens, judgments and taxes, including personal taxes, that may be a lien on the land, and that the mortgage to the first party or any person for whom the first party may be acting as agent will be a first lien and that the commission mortgage (if any) will be a second lien and second party will, without expense to first party, correct all such errors and defects in the title that first party may require

IV. That, when first party may require, two mortgages will be taken, one for the amount of the principal at a rate of interest fixed by first party, the other a so-called commission mortgage for the excess of interest over the rate specified in the first mortgage. In the event second party obtains from the borrower a rate of interest in excess of the total rate net to first party, then the second or so-called commission mortgage may, upon election of second party, be taken jointly or to either party and the party in whose favor said mortgage may be drawn shall promptly properly assign to the other party their, or its, portion according to the rate agreed upon, provided, however, that second party shall have the privilege of paying first party its portion in cash, within 30 days after closing of such loan, upon a basis of 10% interest per annum discount for the time each instalment thereof has to run.

V. That second party will furnish upon demand and free from expense to the first party, such conveyance and assistance as may be desired, to enable first party's land examiner to inspect properties upon which loans have been obtained from first party.

VI. That the first party will not consider applications coming from any correspondents living in

other than second party.

VII. That the second party shall not transact any business relating to farm loans direct with the investment customers of the first party, and the first party shall not transact any business relating to farm loans made through second party, or renewals thereof, direct with the borrower, excepting to receive remittances tendered for interest or principal, it being the intention that first party shall represent the investor and the second party represent the borrower.

VIII. Upon second party's failure to carry out any of the above agreements, or when first party shall discover that any statement of facts made by second party in any written letter, memorandum or examiner's report, is untrue and has been misrepresented, or any essential facts concealed, second party hereby agrees to repurchase said loan or loans upon demand, paying the face value thereof and accrued interest, including any uncollected accrued part of commission mortgage, and amounts advanced by first party for taxes, insurance or other expenses in connection therewith, with interest as provided in the mortgages, but said demand to repurchase shall be made within thirty days after inspection of the security by the first party's examiner, and said inspection shall be made not later than September 30th of each year for all loans made during the one year previous to said inspection.

IX. The first party agrees to pay the second party the accrued interest on all loans purchased excepting when payment is made within seven days of the date of the mortgage.

If loans upon which moneys are advanced are not completed within sixty days of such advance, second party will on demand refund the money so advanced.

Nothing in this agreement shall be construed as appointing second party agent for first party to collect principal or interest, or to give second party authority to bind first party in any agreement with borrower, either before or after loans are closed, except on points for each particular case specifically authorized in writing by first party.

This contract may be terminated upon the written notice of either party, but such termination shall not affect the agreements of this contract or the liability of the parties hereunder as to any loans made or agreed to be made under this contract prior to such termination.

This agreement shall be construed to apply to all loans made in the name of the first party or made at its request in the name of another or purchased by it and assigned to it or another at its request, when such loan has been or shall be negotiated by or purchased from or through the second party, and shall cover all loans heretofore as well as hereafter made through or by second party.

IN WITNESS WHEREOF: We have hereunto set our hands and seals this day of

A. D., 19

SCHANKE & COMPANY

_____ Secretary.

Figure 102: Some bankers whose lending territory covers a large area use an agreement similar to that shown above for their protection. They appoint dependable correspondents to obtain applications, at the same time securing their promise to see that loans are as represented.

LOCAL CORRESPONDENT'S REPORT

SCHANKE & COMPANY:

I have made a careful personal examination of the premises described in the foregoing application of _____ for a loan of $_____, and in my judgment the farm is worth as follows:

The value of the ground, exclusive of buildings, is _____ $_____

The value of buildings on said land is _____ $_____

Making the total value of the property _____ $_____

What is applicant's financial condition and reputation ?_____

How much of the land can be profitably cultivated?_____

What is the least the borrower will agree to accept as a loan?_____ $_____

Up to what amount is the loan safe and conservative?_____ $_____

In what other respects would you modify the applicant's statements in this application?_____

This loan is to net you_____% interest, plus $_____cash commission. We hereby warrant and guarantee that the foregoing report and the statements made in this application (the exceptions being noted in this report) or any correspondence from us on this loan, are substantially correct and true, and should any essential statements made be untrue, we will purchase from you at par and accrued interest the loan made hereunder, provided, however, that an examination of the premises shall be made by your examiner within one year from the date of the loan and I am notified immediately after such examination and given 60 days in which to make such repurchase.

Dated _____ 191___

_____
Local Correspondent.

A. Buildings.
B. Cultivated land.
C. Meadow and hay land.
D. Pasture land.
E. Timber land.
F. Slightly low but cultivated.
G Low and wet.

H. Level.
I. Undulating.
K. Rolling.
L. Rough.
M. _____
N. _____
O. _____

To Schanke & Company:

On my application for a loan of $_____, dated evenly herewith, I hereby agree to pay_____per cent interest, payable semi-annually and $_____cash commission. It is understood that the difference in rate of interest agreed to in this application and the rate at which the first mortgage may be made is commission to Schanke & Company and if permits are granted to pay part or all of the loan, such payment is not in any way to affect the note and mortgage given as commission.

_____
Applicant.

Dated _____ 191___

Figure 103: By analyzing this report of a local correspondent, the farm loan officers of an Iowa bank find all the necessary facts regarding an applicant as well as his property, and the information is then turned over to a committee for its guidance in rendering a final decision.

serve the record of subsequent owners of the property, if such transfers take place, and also for the amount, the rate, and the record. The left half of the body of the page also resembles the folder, but the remainder is arranged to serve as an interest tickler as well as a record of interest payments. The space between the lines is reduced by one half and the columns are designed to record respectively the interest dates and the amount of interest due. There also are two narrow columns simply for checking payments of interest or for showing the date on which due notices are sent. The space between these two columns may be used for noting partial payments of interest, or any other date of importance.

The connecting link between the folder and the page is in the system of numbering. The book is divided into six groups of pages separated by leaves with projecting leather tabs marked "January and July," "February and August," and so on. The loans in this book are arranged according to the dates on which the semiannual interest falls due. The leaves in each of the six sections bear consecutive numbers, and the folders or wrappers bear the same numbers, prefixed by a letter designating the division into which the date of the loan naturally throws it. Thus we have J for January and July, F for February and August, M for March and September, A for April and October, N for May and November (the natural designation M having been previously used), and D for June and December. The plan makes it possible instantly to find J98 or N56, together with all necessary information concerning the loan.

Posting payments of interest or principal is also much simplified by the use of this system. When James Martin pays his semiannual interest of $25, he is, of course, credited with that amount in the day book, but the additional information, A29, is also noted

in the margin, which enables the clerk to turn quickly to that page in the loan book and to check the interest as paid. The posting can be done as fast as one can turn the leaves.

The value of the arrangement of the leaves as an automatic interest tickler is apparent. At the beginning or end of the month the entire number of items then payable is at one's command. It is only necessary to run through the proper division. This obviates the possibility of overlooking an account when sending notices of interest due.

The method is adaptable to advantage in almost any bank in an agricultural community. It does not, however, provide some of the details that are usually required by a bank lending over a large area. For this purpose the following method has proved unusually satisfactory in most instances. It provides both directly and simply for nearly every requisite step covering a farm mortgage loan.

In the bank lending over a comparatively large area, the first step is usually the appointment of correspondents to obtain applications. The banker, whose plan will now be described, has found that it is unsafe to accept applications without first having the security carefully examined (Figure 101) or without having an agreement with correspondents (Figure 102) under which the mortgagee, or lender, is given a certain time to make an inspection. Under these conditions the correspondent agrees to repurchase loans that are not as represented. This, then, gives the mortgagee an opportunity to inspect all the loans during a certain period and in one locality at one time, in this way materially reducing the expense. Correspondents are treated as the agents of the borrowers, instead of as the agents of the mortgagee. These precautions are taken in order to free the bank entirely from any responsibility for any agreement which may be made by them.

Loan No.___

Applicant _____

Security _____

_____

_____

Diagram of land

Approved for _____ years $_____

Rate _____

Options _____

_____

_____

Insurance _____

Consideration last sale _____

_____

Prior encumbrances _____

_____

_____

Remarks _____

_____

_____

_____

_____

Date _____ _____

_____

_____

Loan Committee

Delivery date _____

Figure 104: The loan committee in the same bank uses this simple but comprehensive form to enter its decision on applications. This information is condensed, as you see, from that listed on the preceding forms; technicalities are omitted to make room for only essential facts.

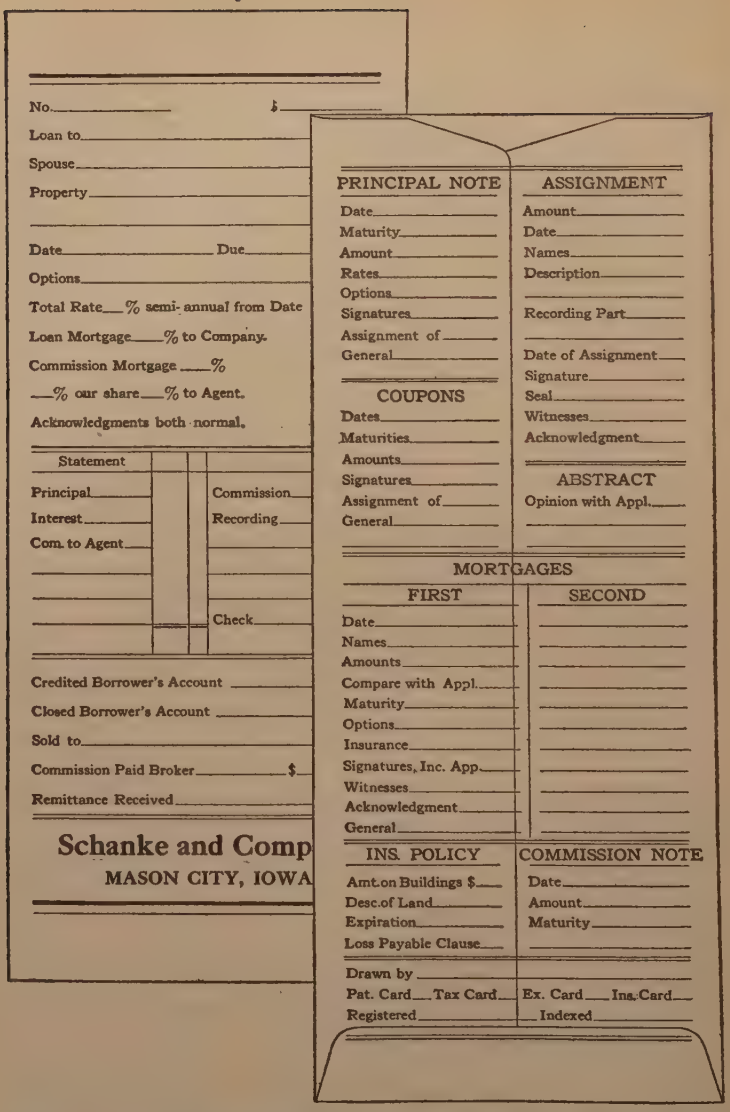


Figure 105: This envelop which contains an accepted loan shows all the necessary information regarding the transaction. The facts are filled out on both sides by a clerk who sees that each detail is duly recorded for ready reference before forwarding the papers for execution.

Upon receipt of the application with the report of the local correspondent attached (Figure 103), the officer in charge of farm loans goes over it, and, if it is acceptable to him, passes it along for final action by a committee which meets every day to pass on loans. The form shown in Figure 104 is used by the committee. If the application is accepted, the farm loan manager places on the face of the application envelop (Figure 105) the information required for the preparation of the papers by clerks, to whom the details are given.

HOW ONE BANK KEEPS TAB ON ALL INTEREST ON LOANS

When this work is finished, the papers, accompanied by a letter of instruction, are forwarded for execution. The clerk preparing the documents is required to place his initial on the back of the application envelop in the space provided for that purpose. When all the operations have been completed and checked, according to the form on the back, all details of the loan are complete. If the settlement is made through a ledger account, the bank indicates this on the envelop.

The methods used in connection with keeping a record of the loan are simple and effective and do not disturb or increase the general accounting practice. In Insert VI is shown the loan sheet used. The loan registers containing these sheets have six divisions, A, B, C, D, E, F. A represents loans with January and July interest payments, B represents those with February and August interest payments, and so forth. They are divided in this way for convenience in sending out interest notices. Corresponding numbers are, of course, placed on all of the papers of the loan.

The loans are then indexed "visibly" or by a card system. The same index numbers are given the folders in which all the correspondence, the application, the application envelop, the examiner's report, and other

Schanke & Company
Mason City, Iowa.

_____

_____

Dear Sir:

Will you kindly indicate opposite the following descriptions whether or not the taxes, drainage instalments, or other liens have been paid for the years named. We do not care to know the amount; simply fill in the spaces with "Yes" or "No" as the case may be. A stamped envelop is enclosed. We thank you for the favor.

Yours truly,
A. M. SCHANKE, President.

NO.	NAME	DESCRIPTION	SECTION	TOWN-SHIP	RANGE	ARE TAXES PAID FOR _____	ARE TAXES PAID FOR ALL PRIOR YEARS

SCHANKE & COMPANY
INVESTMENT BANKERS
MASON CITY. - IOWA

We offer Subject to Sale following described

FIRST MORTGAGE LOAN

JOHN FRERICHS AND WIFE
$10.000.00

5% semiannual Due February 1, 1922

Optional to pay $500 or multiples thereof on February 1, 1919 and subsequent interest dates.

SECURITY AND LOCATION

159 acre farm in Winnebago County, Iowa, ½ mile from Rake, a station on the Chicago, Rock Island & Pacific Railway, in good agricultural district.

TOPOGRAPHY AND SOIL

All this land under cultivation, excepting about 5 acres, which is not sufficiently tiled, but which will make good cultivable land as soon as tiling is put in. Rich black loam soil; clay subsoil.

IMPROVEMENTS

House 26x28x14; barn 36x56x16; double corn crib; granary; hog house; chicken house; machine shed. All buildings in good shape. Two good drilled wells with windmill. Land all fenced. About 750 rods of tile.

OCCUPANCY

Land rented to good tenant for 2/5 of crop and $5.00 per acre cash rent for the hay land. Borrower has excellent reputation in his community and meets his obligations promptly. He is a good honest farmer and owns 230 acres of Iowa land in addition to this quarter. He is reported worth about $40,000.

VALUATION

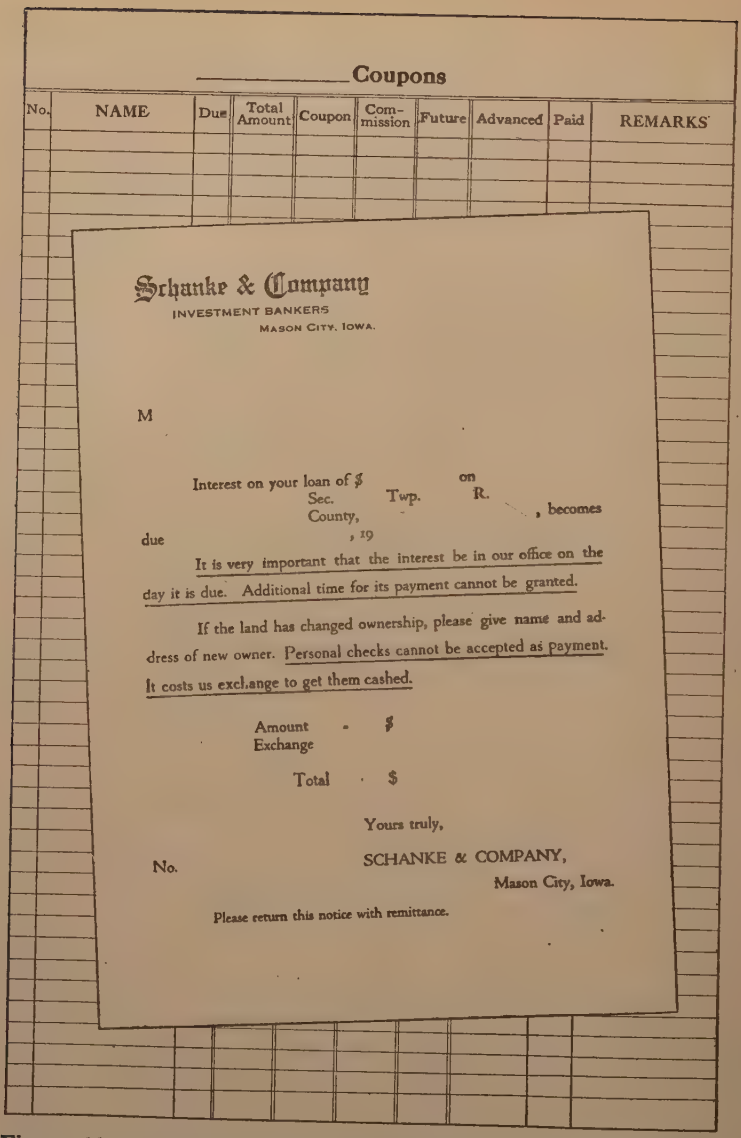
We value the land alone at $22,000, and the improvements at $3,600, making a total of $25,600, over 2½ times the amount of this loan, A very good loan.

SCHANKE & COMPANY,

H. D. Schanke

Vice President.

Figure 108: Here is one banker's method for describing investment offerings, secured by first mortgages. The essential facts are so well presented under definite headings that it is an easy task for the investor to size up the proposition. The bank thus profits by increased business.



Coupons

No.	NAME	Due	Total Amount	Coupon	Commission	Future	Advanced	Paid	REMARKS

Schanke & Company
INVESTMENT BANKERS
MASON CITY, IOWA.

M

Interest on your loan of $ on
Sec. Twp. R.
County, , becomes
due , 19

It is very important that the interest be in our office on the day it is due. Additional time for its payment cannot be granted.

If the land has changed ownership, please give name and address of new owner. Personal checks cannot be accepted as payment. It costs us excl.ange to get them cashed.

Amount - $
Exchange

Total $

Yours truly,

No. SCHANKE & COMPANY,
Mason City, Iowa.

Please return this notice with remittance.

Figures 109 and 110: Here are two forms that have proved effective. One is the interest due notice which usually brings results (small form). The other is the sheet which is used for recording delinquent payments on coupons. These items are listed when delinquent notices are sent.

papers pertaining to the loan are filed. When the loan is paid, the folder is removed and placed in a closed transfer file.

The tax card (Figure 106) provides a convenient way to keep a record of the taxes. These are arranged by states and counties. Once a year a check-up is made on all the loans held in each county to see whether all taxes have been paid (Figure 107). When the information arrives, and it is found that taxes are paid to date, a record to that effect is entered on the tax card.

The expiration sheet used serves to call attention to the maturity of the loan, so that a renewal may be solicited. At the same time the information is given to the sales department, so that correspondence can be taken up with the holder of the mortgage, looking to the reinvestment of the funds.

When insurance accompanies the loan, notation of the fact is made on a plain 3 by 5-inch card. This is kept in an insurance card file under the year in which the policy expires, excepting the current year, for which there are monthly divisions.

When a loan is ready for sale, and has the approval of the legal department, it is passed over to the sales department. The bank does not offer loans from copies of applications, but makes descriptions of the security (Figure 108).

The form of interest notices is shown in Figure 109. Upon receipt of a remittance for interest, it is credited to the coupon account for the month in which the coupon matures. On the first day of the month, remittances to investors are made up for coupons that have been sent in by them for payment; the others are remitted for when coupons are presented. The second interest notices are sent out on the fourth of the month (all interest is made payable on the first day of the month for convenience), and the delinquent interest notices are sent out on the fifteenth of the month.

For convenience in keeping track of the work, delinquent coupons are listed on a sheet (Figure 110) at the time second interest notices are sent out.

The difference between the rate of interest at which the bank expects to market the loan and the rate charged the borrower is usually taken care of by an instalment commission mortgage (Insert VII). It is interesting to note that under this form of mortgage the mortgagee is authorized to take up the interest coupons in connection with the first mortgage and attach them to the instalment mortgage. Under this plan, therefore, the mortgagee is safe in paying to the investor the interest as it matures.

On the field notes record (Insert VII) is provided all information as to lands on which loans have been made or as to lands which have been inspected, whether acceptable for a loan or not. This does away with a second examination when applications are made for loans on lands that have been previously inspected.

In other words, records that are worth while simplify the handling of farm mortgages. They help reduce research and routine and thereby enable a bank to make more profits with less labor—an advantage more than ever desirable in the face of today's rising costs.

CHAPTER XIV

MAKING CATTLE LOANS SAFE

"DURING the 15 years that we have been lending on cattle, we have never lost a dollar," says a Nebraska banker. "We never take anyone's word on any of our loans, except when we know conditions exactly. Whenever a loan is applied for, we go out individually and investigate. Again, most of our loans are made on cattle already in the feeding lot, thus lessening our hazard. In a few instances our customers have lost cattle from various causes, but they have always paid us in full."

This statement summarizes conditions experienced by many progressive banks which handle cattle paper. This character of loan therefore has its attractions, but, as the Nebraska banker has pointed out, it is necessary to observe certain definite conditions if a bank is to be adequately protected against loss. The banker must have definite knowledge of the security offered and he must know also the responsibility of the borrower.

Although banks handle a heavy volume of cattle paper, loans of this sort are not confined to them alone. They are negotiated through the following agencies:

First, the banks which deal direct with the borrower. These are usually the small banks in cattle-raising territory and those in the adjoining cities.

Second, the loan companies, making cattle loans exclusively. They are generally owned by the stockholders of banks located in or near the stock yards, and are usually managed by the bank's officers. In

APPLICATION FOR LOAN

NAME OF APPLICANT _____

Residence _____, County of _____, State of _____

Post office address _____

How long have you lived at present address? _____

Where did you live before coming to present address? _____

Are you married or single? _____ Age _____ Have you ever failed or compromised with your creditors? _____

Are there any judgments standing against you? _____

Do you ever, or have you in the past bought grain, or provisions on margin, or do you speculate in any way? _____

_____

Do you buy cattle or hogs for shipment? _____

Do you indorse notes for other persons? _____

At what bank do you do business? _____

AMOUNT OF LOAN WANTED $ _____ time to run _____

Rate of interest _____ %, bank discount. When wanted _____

Note will be indorsed by _____

Will give as security CHATTEL MORTGAGE on following property, which I or we now absolutely own clear of encumbrance:

_____ head _____ year-old _____, average weight _____ pounds per head, cost $ _____

_____ head _____ year-old _____, average weight _____ pounds per head, cost $ _____

_____ head _____ year-old _____, average weight _____ pounds per head, cost $ _____

_____ head of hogs and _____ bushels of corn to be included in the mortgage.

Cattle are branded _____ Horned or dehorned _____

WILL GIVE AS ADDITIONAL SECURITY CHATTEL MORTGAGE on the following property, which will be bought from _____ P. O. _____

DESCRIBE FULLY

_____ head _____ year-old _____, average weight _____ pounds per head, total cost $ _____

_____ head _____ year-old _____, average weight _____ pounds per head, total cost $ _____

_____ head _____ year-old _____, average weight _____ pounds per head, total cost $ _____

HIS CATTLE ARE BRANDED _____ Horned or dehorned _____

When and where could all cattle be inspected if desired? _____

Are cattle under mortgage? _____ Amount $ _____ To _____

Was mortgage released? _____ Are cattle to be rebranded? _____

How are cattle to be fed? _____

Where are cattle to be kept? _____ miles _____ of the town of _____ in the County of _____, State of _____

Farm described as _____ Section _____, Township _____, Range _____

What is nearest railroad station? _____

What station do you ship from? _____

Dated at _____

_____ 19 _____ Signed _____

Figure 111: Although all loan applications cover points more or less similar, this one which an eastern bank uses for cattle paper is somewhat different. Spaces are provided to enter the applicant's name, the amount of the loan, the security, the brands of the cattle, and so on.

some cases, investigation indicated, the entire capital stock of these companies is owned by the bank. The large volume of credits carried in the cattle business overtaxes the resources of some banks and this accounts for the existence of the loan companies.

Third, commission houses buying and selling cattle, either making loans direct or giving their indorsement. Their interest in the loan is different from that of the banks and loan companies, for the reason that they expect to handle the cattle again.

For the purpose of simplifying cattle transactions, it is customary for many banks to classify cattle loans under different divisions. For example, cattle headed for market, which are mostly three- and four-year-old steers, are considered by many to be the best security for loans. Two-year-old steers class next; a market can almost always be found for such animals, and if necessary, they can be fattened for the packing house.

Investigation indicated that many lenders look upon cow paper with favor while others give it very little consideration. Usually the farther you get away from the ranch, the more you hear about the risk of cow paper. True, it is perhaps not quite as liquid as the other classes, but it is equally necessary. If a cow in calf is worth, say, $60 to $65, a calf dropped in the spring is worth $30 in the fall; 80% of a herd of cows are producers. Non-producers and those beginning to age are headed toward market.

Loans mature usually in six months. For feeders, such as three- to three-and-one-half-year-olds, headed for market, this is sufficient time. Paper representing younger cattle or cows, while usually made for six months, is subject to renewal. Such paper is taken up by the loan companies, then renewed and reissued. As a rule, paper may be taken up at any time.

Frequently it is common to split the loan into several payments, and where the notes representing these

CONFIDENTIAL STATEMENT

To _____

_____

GENTLEMEN:

For the purpose of procuring credit from time to time, _____ furnish you with the following statement, which fully and truly sets forth _____ financial condition on the _____ day of _____ 19 _____, which statement you can consider as continuing to be full and accurate unless notice of change is given to you. In consideration of the granting of such credit, _____ agree that if at any time _____ stop payment or become insolvent, or commit an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if _____ fail to notify you of any material change in _____ financial condition, then and in either such case all _____ obligations held by you shall immediately become due and payable without demand or notice, and the same may be charged against any deposit account kept or credit due _____ on your books.

REAL ESTATE

Give legal description, Section, Township, Range, County, State, number of acres, in whose name title stands, value per acre.

	Worth	Mortgaged	Equity	
			$	
EQUITY IN REAL ESTATE			$	

Which of above described property do you regard as your homestead? _____

_____

PERSONAL PROPERTY

Cash on hand or in Bank	$	
Good Notes	$	
Stock in corporations	$	
Description:		
LIVE STOCK—Give detail description and market value		
	$	
Total Value Personal Property	$	

Figure 112: This statement (two pages) definitely describing all of a borrower's property furnishes a bank important information in lending on cattle paper. It prevents any uncertainty regarding the collateral offered. Notice that it includes the essential facts regarding the

RESOURCES

Equity in REAL ESTATE as shown in detail on reverse side _____ $ _____

Personal Property as shown in detail on reverse side _____ $ _____

Resources not otherwise listed _____ $ _____

Consisting of _____

_____

Total Resources _____ $ _____

LIABILITIES

Annual payments on REAL ESTATE, due _____ $ _____

Interest on REAL ESTATE MORTGAGES, due _____ $ _____

OWING FOR BORROWED MONEY

To whom payable	How secured	Due	
			$

Owing to relatives _____ $ _____

CONFIDENTIAL DEBTS not included above _____ $ _____

All other debts _____ $ _____

Total liabilities _____ $ _____

NET WORTH _____ $ _____

Amount of Life Insurance carried—Old line $ _____ Fraternal $ _____

To whom payable _____

CONTINGENT LIABILITIES

	Upon Accommodation Indorsement		Surety on Bonds	
Secured		$		$
Unsecured		$		$

This statement both printed and written has been carefully read, and is a full, true and correct statement of _____ financial condition.

Witnessed by: _____

_____ _____

_____ P. O. Address _____

References: _____

_____

_____

Subscribed and sworn to before me this _____ day of _____, 19___

_____

Notary Public in and for _____

County _____

My commission expires _____

applicant's real estate and personal property. The second page provides for a summary of resources and liabilities including any contingent liabilities which sometimes are an important consideration. These items indicate the borrower's ability to meet his payments on loans promptly.

INSPECTION OF LOAN

NUMBER	AMOUNT	MATURITY	RENEWAL OF
12673	50,000.00	Sept 1, 1918	

MAKER Joseph Wheeler
P. O. Jourdanton CO. Atascosa STATE Texas
INDORSER None
SECURITY 2,000 mixed Cattle, more fully described as follows

500 Steers 4 + 5 yrs. old
250 " 3 yrs. old
250 " 2 yrs. old
500 Cows 3 yrs. + up
250 Hfrs. 2 yrs.
225 Yrlg. Steers & Hfrs.
25 Registered Hereford Bulls

LOCATION
All of the above Cattle are branded Q on either the right or left loin and are located on owners pasture situated 10 miles south of Jourdanton in Atascosa Co, Texas

REPORT

1. Are cattle located as described in county named above? If not, where?
Yes

2. How many cattle did you actually count?
1,800

3. How many cattle do you estimate borrower actually has?
All of the number mortgaged

4. Did you find brands given above to be correct? State particulars.
Yes

5. How are cattle being fed?
Grazed

6. Are arrangements for feed and water ample, or should cattle be moved?
Yes

7. What do you think cattle weigh per head?
4+5 yr old steers about 900#
3 " " " " 750#
2 " " " " 500#

8. What are cattle worth per head in their present location?
4+5 yr old Steers $ 90.00 per head
3 " " " 65.00 " "
2 " " " 50.00 " "
Cows $60.00 per head
Hfrs. 45.00 " "
Yrlgs. 35.00 " "
Bulls 125.00 " "

9. Character, reputation and financial responsibility of borrowers.
Good

10. Remarks and suggestions.
Mr. Wheeler is a very practical man who gives his cattle the best of attention. Cattle are all in fine shape and range is in excellent condition.

Date March 1, 1918

J. M. Sanborn
Inspector

Figure 113: In order to safeguard cattle loans it is of utmost importance that the bank knows exactly what facilities a borrower has for taking care of his herd. An inspection report of this sort properly filled out helps the bank to make a wise and accurate decision.

payments are sold to different banks, the transaction is placed on the same basis as a participation loan. Loan companies usually prefer a single note covering each transaction; but they might have more difficulty in placing these notes, for many buyers prefer to have an assortment, as against the few who do not care for participation loans.

A buyer desiring to arrange a loan in connection with the purchase of cattle, ordinarily applies to one of the three sources enumerated above. He is required to file an application and also to make a sworn financial statement. This form, which will be shown later, is similar to the usual property statement blank, being adapted, of course, to the requirements of the business. If the application is approved, the borrower gives as security a chattel mortgage often equal in amount to the purchase. The theory is that purchase-price loans are justified, for the natural increase in weight of the cattle creates a good margin of protection in the equity. The chattel mortgage contains a description of the cattle, according to the breed, the sex, the age, and the brand. It also covers any information on additions or increase in value, as well as pasturage, feed pens, feed troughs, and water privileges and such other information as is necessary.

The mortgagor agrees not to remove from the premises the cattle described in the mortgage without the written consent of the mortgagee. He also agrees not to market the cattle except by consent. The mortgagee reserves the right to take possession of the cattle at any time when in his judgment they are not being properly cared for. The lender searches the records for other mortgages and record items, thus protecting himself so far as is possible against fraud through herds being mortgaged more than once.

The cattle and their surroundings are inspected by experts regularly employed by the companies.

Lincoln Loan and Trust Company
CHICAGO, ILL.

County Clerk or Register of Deeds _____ County,

Address _____

Dear Sir:—We wish to obtain an abstract of all Chattel Mortgages filed or recorded in your office against _____ of _____ which have not been released. Also would appreciate any information as to the financial responsibility and general reputation of parties mentioned.

Kindly furnish us this data on the form below and return this sheet to us at your earliest convenience. If no mortgages are in force against the parties in question, please write **"NONE"** below. We shall be pleased to remit promptly your fee for this service and wish to assure you of our appreciation for your prompt attention.

Yours very truly,

M. A. TAYLOR, PRESIDENT.

MORTGAGES	SECURITY	BRANDS	STOCK LOCATED	DATE FILED	AMOUNT	DUE

General reputation _____

Financial responsibility _____

Remarks: _____

Signed _____

Fee _____

Figure 114: By using this form which it sends to county recorders, an Illinois bank guards against lending on cattle already covered by a chattel mortgage. The information also serves to check up on the borrower's own statement, thus proving his worth as a credit risk.

Lincoln Loan and Trust Company

CHICAGO, ILL.

Gentlemen:-

We will esteem it a favor if you will kindly give us some idea of the financial responsibility, general reputation, and so forth, of

It is understood that this information is strictly confidential and without responsibility on your part.

Thanking you in advance, and assuring you that we shall be glad to reciprocate whenever called upon, we are

Yours very truly,
G. F. MEYER, Cashier.

General reputation _____

We have had dealings with him for _____ years

Largest amount loaned $_____ How secured _____

How pays (prompt or slow) _____

His last statement dated _____ shows Assets $_____

_____ Liabilities $_____

Real Estate owned _____

(Encumbrance thereon if any) _____

(Is this included in above Liabilities) _____

Live stock owned _____

(Encumbrance thereon if any) _____

(Is this included in above Liabilities) _____

Now owes us _____ How secured _____

When due _____

(Is this included in above Liabilities) _____

Remarks: _____

Figure 115: As another precaution before lending on cattle, this bank sends out to other bankers the form letter reproduced to obtain additional information about the applicant's financial standing. Thus the bank has a dependable means of comparing figures and facts.

NO. 3119

Dated Oct 9, 1918 C/M

Maturity Apr. 1, 1919 Inspection

Maker L.A. and C.T. Heath

Address Justine

County LaSalle State Texas

Guaranteed

Indorsed by

Payable at Lincoln Loan & Trust Co.,

$ 36,384.22 Interest added

SECURITY

Steers Described

Cows

Calves

Hogs

Sheep

Location

REMARKS

Discounted for

Sold to National Park Bank, New York

Payments

Figure 116: This envelop holds a chattel mortgage, together with the reports of the cattle inspector. Its contents are noted on its face so that the ordinary details can be gathered at a glance without even the bother of unfolding the papers. This method saves the officers time.

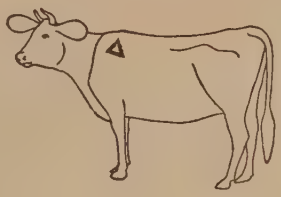
This inspection covers fences, water, and pasturage. The inspector also makes inquiries regarding the mortgagor, especially for the purpose of ascertaining his standing in the community as a cattle man. This system is followed by practically all lenders on cattle.

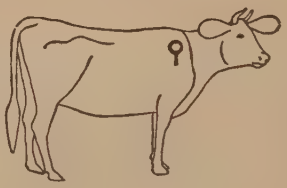
In small banks in cattle-raising sections the practice prevailing for the ordinary commercial loan as described in Chapter V is usually followed because the big cattle buyer is almost always the representative of one of the stock exchange houses which provides the finances for buying. Of course, there are smaller buyers in every community who can borrow from the country bank a reasonable amount of money on their note. But in the small bank, the cattle loan business is ordinarily of no great significance, although, in many banks it yields attractive revenue.

Among the large banks handling cattle loans, investigation indicated that the officers usually are opposed to the so-called "split deals," which enable the customer to borrow money from more than one source in order to carry on his business. These bankers feel that his transactions should be confined entirely to one bank, so that they will know exactly his condition at any time. This eliminates the necessity of probing into the other business affairs of the borrower. If he has borrowed from other banks or from other sources, it is naturally difficult to keep track of his financial condition.

Let us consider now the practice followed by one cattle loan company in making a cattle loan. The method here shown is typical of that used in many financial institutions and it can be easily adapted to the needs of almost any bank handling this class of business extensively.

The loan application (Figure 111) gives the amount of the loan, the nature of the security, the name of the borrower, his address, and other information of





REMARKS:_____

First state holding brand, then all other brands and names of the givers, what County their ranches are in and their Post Office Address.

The foregoing are all the brands now used by me and shows their actual location on animal and all my brands are properly registered in

Brand Book_____County, Texas and are on file with the Secretary of the Texas Cattle Raisers Association of Texas.

Yours truly,

_____

Figure 117: This circular letter sheet properly filled out by cattle borrowers of one bank has saved the bank officers from confusion in keeping tab on the various brands. It tends to lessen the difficulties that come in lending when cattle are marked with unregistered brands,

LINCOLN LOAN AND TRUST COMPANY

CHICAGO, ILLINOIS

Dear Sir.

You are no doubt aware that it is practically impossible in communicating by ordinary letter to intelligently and correctly describe brands and their location on the animal, yet it is quite essential with those preparing the various papers made necessary in the handling of cattle transactions that this information be accurate, hence we enclose the attached "brand sheet" for your consideration and would thank you to give us in detail the brands now being used by you.

In the event you through purchase or otherwise have cattle bearing other brands than yours, kindly show such brands together with your holding brand and in space for remarks please state party or parties name giving such brands, and state their residence by County and Post Office.

Thanking you in advance for your usual prompt response to the above request for which we enclose self-addressed envelop.

Yours truly,

LINCOLN LOAN AND TRUST COMPANY

and indicates definitely what brands are used. Accordingly it has simplified cattle transactions. Notice that the figures of the cows illustrate the way cattlemen are asked to show their types of brands. The location of the brand also forms a part of this pictorial information.

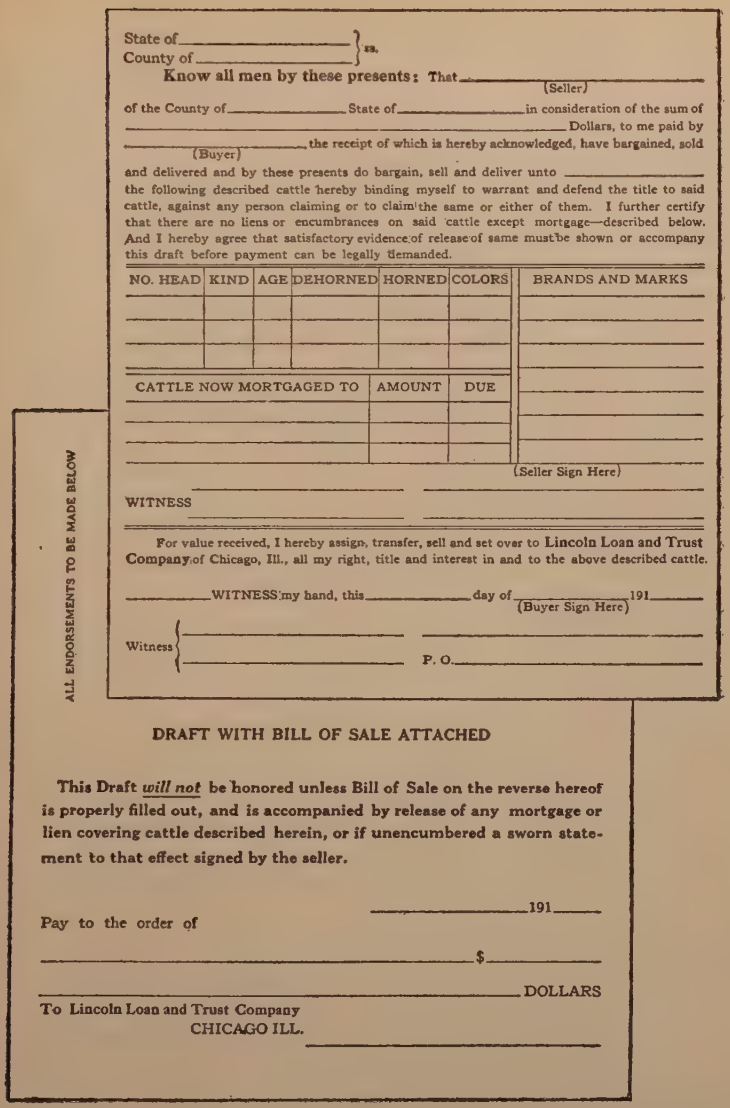
a personal character. This is accompanied by a confidential statement (Figure 112) which gives a complete account of the borrower's real estate, his personal property, and live stock. With this information the banker is able to inspect intelligently the collateral offered. If the cattle offered as security are purchased in the market where the loan is arranged for, they are immediately inspected, but if they are on a ranch, the company's inspector visits it and secures information like that shown in Figure 113. This inspection is perhaps one of the most important features of the business, for bankers, large or small, want to know the exact condition of the stock if the loan is to be properly safeguarded.

HOW CATTLE RAISERS' ASSOCIATIONS HELP TO DETECT FRAUDS IN BRANDING CATTLE AND THUS SAFEGUARD BANKS

"Where the banker has to be most careful on cattle loans," says one banker, "is in dealing with a new applicant, especially if he is inexperienced in buying cattle. Often a new man in the trade will appear to be experienced, when, in reality, he does not know how to buy. If the banker, by any chance, is careless in his deals, he is likely to lose money unless he is a very able judge of stock himself.

Therefore the careful banker determines the ability of the prospective borrower. True, this is the same rule that applies in making almost any commercial loan. But the banker cannot take any chance on judging stock, because he must know that the breed is sound, and able to stand any reasonable hardships, such as severe winters, rain or heavy drought. The bank should also be conversant with the brands so that in counting cattle it is certain that every head belongs to the borrower.

Thus, the inspection should be made so that the lender will have sufficient data to guarantee the



State of _____ } ss.
County of _____ }

Know all men by these presents: That _____ (Seller)

of the County of _____ State of _____ in consideration of the sum of _____ Dollars, to me paid by _____ (Buyer) the receipt of which is hereby acknowledged, have bargained, sold and delivered and by these presents do bargain, sell and deliver unto _____ the following described cattle hereby binding myself to warrant and defend the title to said cattle, against any person claiming or to claim the same or either of them. I further certify that there are no liens or encumbrances on said cattle except mortgage—described below. And I hereby agree that satisfactory evidence of release of same must be shown or accompany this draft before payment can be legally demanded.

NO. HEAD	KIND	AGE	DEHORNED	HORNED	COLORS	BRANDS AND MARKS

CATTLE NOW MORTGAGED TO	AMOUNT	DUE

(Seller Sign Here)

WITNESS

For value received, I hereby assign, transfer, sell and set over to **Lincoln Loan and Trust Company** of Chicago, Ill., all my right, title and interest in and to the above described cattle.

WITNESS my hand, this _____ day of _____ 191_____
(Buyer Sign Here)

Witness _____ P. O. _____

ALL ENDORSEMENTS TO BE MADE BELOW

DRAFT WITH BILL OF SALE ATTACHED

This Draft *will not* be honored unless Bill of Sale on the reverse hereof is properly filled out, and is accompanied by release of any mortgage or lien covering cattle described herein, or if unencumbered a sworn statement to that effect signed by the seller.

_____ 191_____

Pay to the order of

_____ $_____

_____ DOLLARS

To Lincoln Loan and Trust Company
CHICAGO ILL.

_____

Figure 118: In order to safeguard the buyer and seller of cattle, as well as the bank holding cattle loan paper, this transfer document which includes a draft on the reverse side is made out to cover in detail any sale of cattle. Doubt as to what cattle are included is thus avoided.

safety of the loan. After the inspector's report is submitted, a search is made in the property records and tax records of the county to find out the actual financial condition of the applicant. There is sent to the recording official of the district where the borrower resides a form (Figure 114) asking for a copy of any existing lien against his property, real estate or personal, and on this form the recording official is requested to give any other pertinent information. A form letter (Figure 115) intended to produce information regarding the borrower's credit, is also sent out. In this way the lender has a double check on his security. First, he learns from his inspector if the application is correct, and next he finds out through the recording official if the security offered is free from encumbrance.

Then if the analysis thus made is satisfactory, a chattel mortgage is drawn up. This mortgage, along with the reports furnished by the inspector, is enclosed in an envelop (Figure 116) and is then filed alphabetically.

The borrower, in the meantime, has given his note for the amount of the loan, as well as for the interest to maturity.

Among the cattle loan companies, and indeed among the banks generally, branding the cattle is important. In order to learn definitely the marks used by the borrower, a form (Figure 117) is sent out and on this the prospective borrower is required to designate his brands. Then if a buyer representing a cattle loan company comes through the territory, a form (Figure 118) is made out, giving a complete description of the cattle to be purchased, the brands and the marks, and the mortgage, if any. This, it will be noted, provides a clear transfer from buyer to seller.

Thus, after the borrower's standing is clearly determined by the process already described and his

brands are checked up, the application is usually passed on favorably and the money is advanced.

Nor does the lender in any way relax his attention after the loan is made. In order to keep the inspectors advised of the sale of cattle in different localities, a looseleaf form (Figure 119) is made out in triplicate; one is retained in the general office; one is forwarded to the inspector; and one is sent to the cattle raisers' association in that territory. There are several associations of this kind throughout the country and they keep a record of the brands used by their members. They have inspectors at all central markets to watch for stolen or strayed cattle. In this way, not only is the rightful owner protected, but the banks as well.

The inspectors have a record of all mortgaged cattle, and they notify the mortgagee when such cattle arrive at the stock yards. For example, the arrival of a car of mortgaged cattle in Chicago would be reported by wire to the mortgagee in St. Louis, Omaha, or elsewhere. The inspector also notifies the commission agent to whom the cattle are consigned. Thus the commission merchant understands definitely that the proceeds of the sale of mortgaged cattle must reach the hands of the mortgagee.

Lenders have discovered that sometimes certain borrowers use brands slightly different from those listed, and to detect these fraudulent brands, a looseleaf form (Figure 120) is sent to the cattle raisers' association to find out, first, if the prospective borrower is a member, and second, what brands he has registered. The lender is enabled in this way to check the descriptions furnished by the association, with the brands set forth in the application for the loan.

Another necessary precaution is to see that the chattel mortgage also covers the increase in the herd of cattle, sheep or hogs. Take a loan on sheep for example: the banker should be very careful to see that

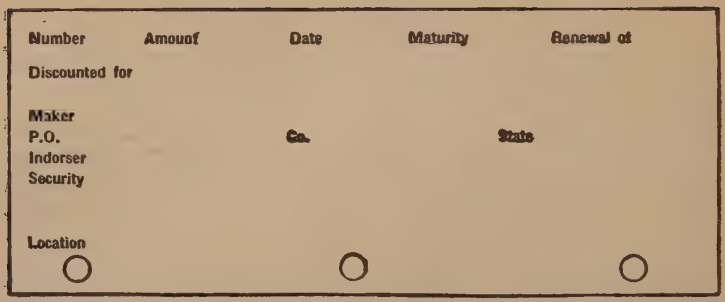


Figure 119: In one western bank these looseleaf record forms in triplicate are used to enter all essential details concerning cattle paper.

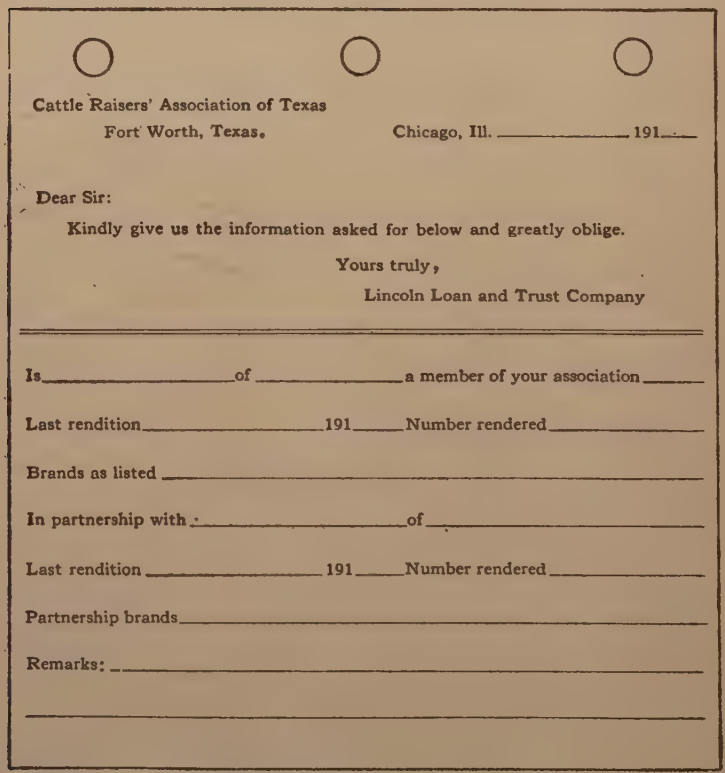


Figure 120: This additional safeguard helps the bank to check up on all cattle loans. The cattle raisers' associations give exact information, which can be compared with what the bank already has on hand.

this chattel mortgage includes the wool that the sheep will grow. If he does not do this, the sheep raiser still has an opportunity to borrow on a chattel mortgage covering the wool of the sheep, which would divide the security. The banker needs to be sure that his claim to any chattel mortgage is absolutely clear. This is especially important because if a cattleman dies and the herd reverts to the estate, it might take a long time to straighten out the mortgage; in other words, the banker must be absolutely sure that he will be able to realize as quickly on cattle loans as on loans of any other character.

HERE ARE SOME OF THE IMPORTANT POINTS TO WATCH IN MAKING CATTLE LOANS

Many bankers, investigation showed, feel that they are safe in lending on the purchase price of cattle if they are absolutely sure of the borrower. Others, however, feel that it is wise to lend only up to 50% of the valuation.

Another point to consider is the condition of the cattle. Steers and cows, for example, should be well balanced in a herd. Then there arises the question of feed. Each cattle man should have at least three fourths of a ton of hay per head for feed.

"We always have to be sure that the borrower has sufficient feed for his cattle," says an Iowa banker. If he has not the proper amount, and we do not feel his resources are sufficient to guarantee that he will have, we, of course, do not consider the loan under any circumstances.

"We do not often lend to a renter unless we know our man pretty well, because the hazards are usually too great. True, a small banker sometimes may be able to lend safely to a renter if he knows the conditions and can keep in close touch with the situation. As a rule, we lend a renter only when the paper comes

to us indorsed by a reputable commission man. Another vital fact to know is whether the cattleman has enough land properly to take care of the cattle on which he asks a loan. If he is cramped for space the loan is likely to be hazardous."

As a rule, the banks or cattle loan companies are very careful about renewals of loans. This problem is handled by the discount committee. If a man wants to renew a loan once and shows that he is making good, he is almost always accommodated, but if he shows that he is not getting along especially well, and keeps wanting to renew his loan, the lenders generally call a halt and demand that the loan be paid up.

The interest rate usually runs around 6% to 8%. Some banks often accept cattle loans on a chattel mortgage from brokers to whom a margin is allowed for guaranteeing the information about the borrower. Of course, this guarantee only covers practically the broker's insistence that the man is good and that the information gathered is correct.

In making cattle loans, the banker is therefore compelled to recognize many conditions that are not usually encountered in other loans. He should know the borrower, and have a definite idea of his ability to handle his stock. He should also be a good judge of cattle and be conversant with the varied problems of live-stock raising in order to make his cattle loans safe.

PART IV

THREE IMPORTANT PROBLEMS

CHAPTER XV

HOW TO CONTROL REAL ESTATE LOANS

EXPERIENCE has shown most bankers that no detail of information is too trivial to overlook when making loans. Especially is this true of loans on real estate. To be sure that all the necessary information is instantly available, a middle western bank requires from each applicant a complete description of the property offered as security, and these items are recorded on a form like the one which is reproduced in Figure 121.

Even this record, however, is not a part of the regular financial statement data, and neither is considered complete without the other. The facts of Figure 121 are merely informative and serve to set forth sometimes more strikingly, various tendencies indicated in the financial statement. Thus it helps the banker considerably to appraise property judiciously.

This is one of the many interesting methods used in the real estate loan department of this bank, which has deposits of $2,500,000, and it is significant that it is precisely the practice of another bank, not far distant, with deposits of over $33,000,000. The idea, experience has shown, can be adopted in almost any bank with equally effective results.

Before starting to use the form referred to, the cashier of the smaller bank was frequently tempted to depend, to a certain extent, upon his memory in making a loan. On one occasion he failed to make note of the lack of water and gas improvements on a certain piece of

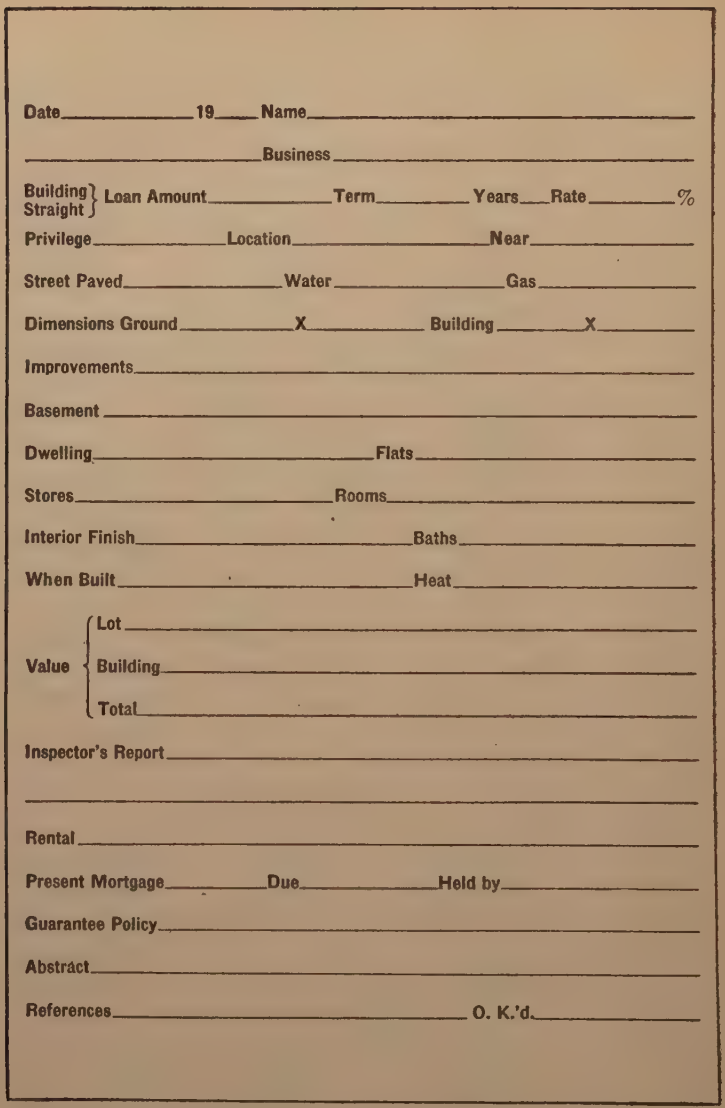


Figure 121: A middle western bank requires applicants for loans on real estate to furnish complete information concerning the property offered as security. Although this sheet does not include all the details of a loan, it at least furnishes a key to all necessary information.

APPLICATION FOR LOAN

CHICAGO,_____ 19__

To SHERIDAN TRUST & SAVINGS BANK OF CHICAGO:

You are hereby authorized to negotiate for me a loan of $_____

payable in _____ years, to bear interest at _____% , payable semi-annually, evidenced by principal and interest notes (judgment form if desired), payable in gold coin at your office, or place appointed by lender, and secured by a first mortgage or trust deed (of your usual form), on the following real estate:

Legal description_____

Location, number and street_____

Between what streets_____ Fronts _____

Distance from the corner of nearest cross street_____

Is street paved_____ sewered _____ and has it water and gas service_____

Dimensions of ground_____

Dimensions of buildings_____

Building materials_____

Purposes of use_____

Number of rooms_____

Interior finish_____

How heated_____

When built_____

How long have you owned it_____

What did you pay for it_____

Total amount of insurance_____

Value of ground - - - - - - - - - - $_____

Value of buildings - - - - - - - - - - _____

Total - $_____

Annual rent_____

What encumbrances exist_____ Due_____

Held by_____

Title of property in_____

Name of husband or wife_____

Notes to be signed by_____

Business of owner_____

References:_____

Are current taxes paid_____ Have you paid interest promptly, and taxes before May 1_____

Any special assessments_____

Title Guarantee Policy or Abstract_____

Survey showing location of buildings_____

Prepayment privileges_____

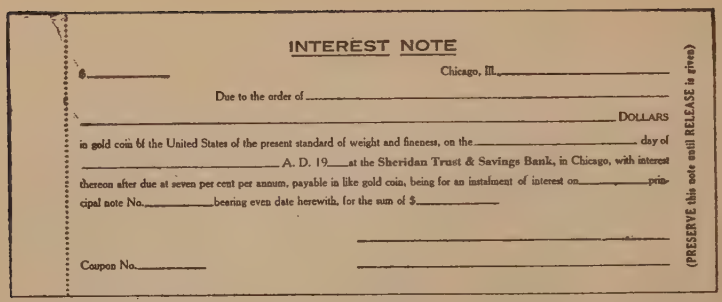
I agree to furnish a plat of survey and a complete satisfactory abstract, or title guarantee policy, covering and showing said loan to be a first record lien, and authorize you to keep said improvements insured during term of loan for not less than $_____, with loss payable to trustee or mortgagee. Abstracts, guaranty and insurance policies to be held collateral to said loan, or kept by you until loan is paid.

In consideration of my application of this date to the SHERIDAN TRUST & SAVINGS BANK OF CHICAGO, for the negotiation of a loan of $_____, I agree to pay all expenses or advances made or incurred for abstracts, recording, insurance, taxes, or otherwise thereunder, and to pay them as commission_____% on said amount, and attorney fees for examination of abstracts, all which amounts may be deducted from any loan obtained, if not previously paid by me.

_____

Address_____

Figure 122: Probably this is one of the most condensed yet inclusive styles of real estate loan application blanks in use. It covers the essential details, as you see, and includes at the bottom an agreement to safeguard the bank in going ahead with the negotiations for the loan.



INTEREST NOTE

$_____ Chicago, Ill._____

Due to the order of _____

_____ DOLLARS

in gold coin of the United States of the present standard of weight and fineness, on the _____ day of _____ A. D. 19____ at the Sheridan Trust & Savings Bank, in Chicago, with interest thereon after due at seven per cent per annum, payable in like gold coin, being for an instalment of interest on _____ principal note No._____ bearing even date herewith, for the sum of $_____

_____

Coupon No._____ _____

(PRESERVE this note until RELEASE is given)

Figure 123: One bank requires all borrowers on real estate to sign interest notes like the one shown here. This insures prompt payments.

$_____ Chicago, Ill., _____ 191____

_____ after date

for value received _____,

promise to pay to the order of _____ the principal sum of

_____ DOLLARS

with interest thereon at the rate of _____ % per annum, payable half-yearly, to-wit:

on the _____ day of _____ and of _____ in each year until said principal sum is fully paid Both principal and interest are payable in the gold coin of the United States of America of the present standard of weight and fineness at the **Sheridan Trust & Savings Bank,** Chicago, Illinois, and bear interest at the rate of seven % per annum after maturity Default in the payment of any interest instalment when due shall at the option of the holder hereof, without notice, render the principal due The interest instalments for said period of _____ year are further evidenced by _____ interest notes of even date herewith. The payment of this note is secured by Trust Deed, of even date herewith, to **W. J. KLINGENBERG, Trustee,** on real estate in the City of Chicago, Cook County, Illinois. This note and the Trust Deed aforesaid are executed and delivered for the purpose of being negotiated, and it is agreed that no holder who shall have purchased it for value before maturity shall, as to this note or the lien created by said trust deed, which is incident thereto, be chargeable with any rights or equities between the undersigned and any previous holder

And any attorney-at-law is hereby irrevocably authorized to appear for the undersigned in any Court of Record in term time or vacation, at any time after maturity, and confess a judgment in favor of the holder of this note, for such amount as may be unpaid thereon, together with costs and reasonable attorney's fees, and to waive and release all errors which may intervene in any such proceedings hereby ratifying and confirming all that such attorney may do by virtue hereof

_____

No._____ _____

Figure 124: When an application like that in Figure 122 has been accepted, the bank fills out this note and gives it to the borrower to sign. It is especially adapted to covering real estate loan transactions.

property, and it was not until after the loan was made that his omission was discovered. He decided then to depend no more on guesswork but to keep a clear record of the information gathered from the borrower at the time of the application.

After Figure 121 is properly filled out, the borrower is handed an application blank (Figure 122). This form of application is especially desirable because it is simple and because it shows the conditions under which the borrower agrees to furnish the abstract, the title, and so on.

When this application is filled out, it goes to the account committee. Should a loan exceed $3,000, the members usually place their names on a form if they give their approval. The application then goes into the file, and notes are made out similar to Figures 123 and 124.

The record which is kept of the loan after the mortgage is made (Figure 125) indicates at a glance all of the information usually necessary for checking it up. On the reverse side of this form appears the amount of insurance carried, the number of the policy, and other pertinent data.

Often the customers of this bank may wish to invest in real estate mortgage loans, and since the bank handles only first mortgages, it aims to keep its investors informed on all prime offerings. In order to do this satisfactorily, the head of the real estate loan department lists on a typewritten sheet, two or three times a week, all new mortgage loans, these being arranged according to their size. A small loan, say of $200 or $300, appears first on the sheet and the larger loans follow. To advise investors of the mortgages which are to be offered for sale, a notice (Figure 126) is sent out at regular intervals.

If the investor is interested, he usually brings this notice with him when making inquiries at the bank.

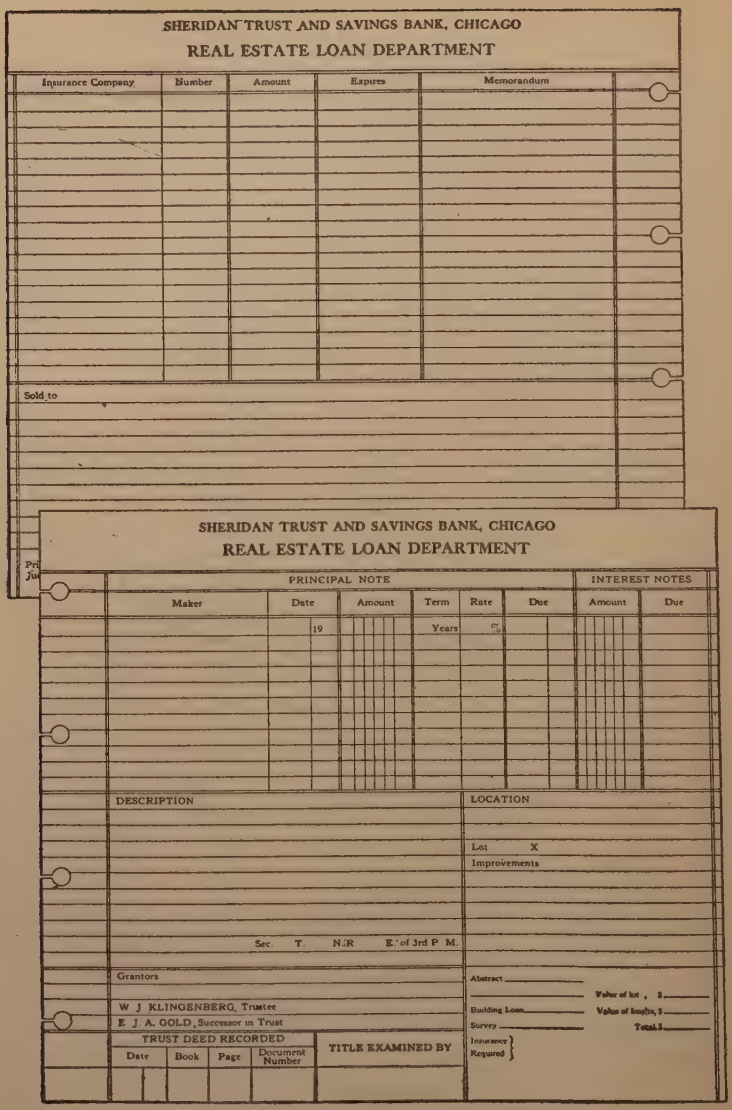

SHERIDAN TRUST AND SAVINGS BANK, CHICAGO
REAL ESTATE LOAN DEPARTMENT
Insurance Company | Number | Amount | Expires | Memorandum
Sold to
SHERIDAN TRUST AND SAVINGS BANK, CHICAGO
REAL ESTATE LOAN DEPARTMENT
PRINCIPAL NOTE
Maker | Date | Amount | Term | Rate | Due
19
Years
%
INTEREST NOTES
Amount | Due
DESCRIPTION
LOCATION
Lot X
Improvements
Sec. T. N.R E. of 3rd P. M.
Grantors
W. J. KLINGENBERG, Trustee
E. J. A. GOLD, Successor in Trust
TRUST DEED RECORDED
Date | Book | Page | Document Number
TITLE EXAMINED BY
Abstract
Value of lot, $
Building Loan
Value of Imprvts, $
Survey
Total $
Insurance Required

Figure 125: This looseleaf sheet furnishes a compact and get-at-able record of every loan made on real estate. The front (lower) form gives all the principal facts about the note, and the reverse side (upper) form provides a record of the insurance on the property and also memoranda.

As the form is made out in duplicate, it is easy, when the investor presents his notice, to refer to a specially indexed book, which is divided according to the size of the loans, usually in units of $500. For example, if an investor wants information about a $5,000 piece of property, the officer in charge can turn immediately to that section of the index between $5,000 and $5,500 and tell at a glance exactly what the offering is.

For figuring interest, it is the practice of this bank to check over the loan sheets monthly and to record the maturing notes on a daily tickler (Figure 127). Thus notes maturing on February 21, for instance, would appear together as indicated on the form. About three weeks prior to maturity, a notification form (Figure 128) is sent out.

It is worth while noting that this form requests the borrower to present his notice at a certain window. This helps measurably to simplify his payment of the interest, and at the same time to save the customer and the bank officers the annoyance of seeking and giving directions.

Since banks of widely varying sizes operate this plan, it offers exceptional possibilities for adoption in the general run of banks. It is valuable not only because of its simplicity in providing for the actual handling of the loan, but for its benefit to investors.

This, of course, is only one of many equally effective plans revealed during the country-wide investigation of banking methods. Let us turn now to the methods employed in another bank of $10,000,000 deposits, 80% of which are time and 20% demand.

"Our plan," says an officer of this bank, "is the result of nearly 50 years' experience. It has helped us to cut the cost of operation, it has lessened errors and has provided quick and satisfactory service to customers. We are constantly striving to cut down and to simplify the number of records. Since a loan depends

mainly upon personal appraisal, we start right off by making our application form (Figure 129) as brief and direct as possible."

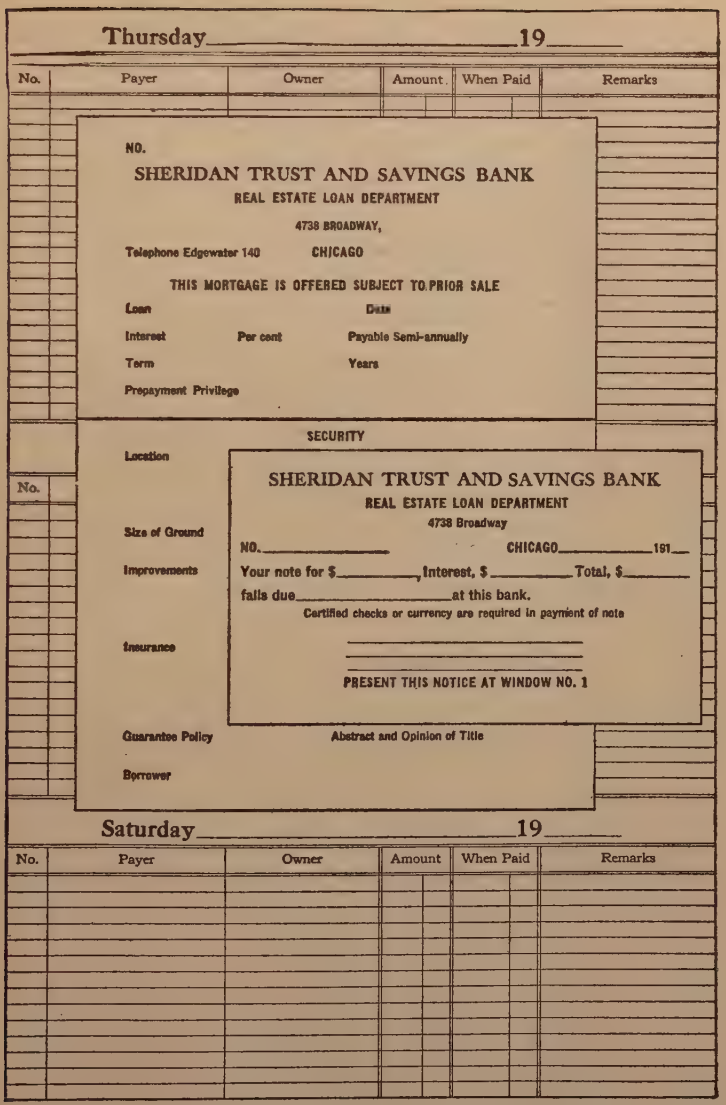
When this application form is filled out, the prospective borrower is usually eager to know just how much money he can get and just when he can get it. The bank promptly advises that it will not be at all necessary for him to call again for this information as it will be sent to him in due time by letter.

THESE TESTED SYSTEMS FOR HANDLING REAL ESTATE LOANS ARE ADAPTABLE TO ANY SIZE BANK

The appraisal of the security offered is made by an assistant cashier, who looks over the property, compares the adjoining real estate, and then contrasts the annual valuations in that particular neighborhood over a period of five or ten years. The condition and character of the neighborhood are important considerations. If, for example, a certain section is in the transition stage from residence dwellings to business buildings, a note is made of it in order to determine its possible future influence on the property values. After all of these details are carefully weighed, the assistant cashier submits a report to the other officers of the bank. When the amount the bank is willing to lend is decided on, the mortgagor is notified by letter and is asked to furnish a complete abstract of the property brought down to date.

If the abstract is found satisfactory, a note (Figure 130) is drawn up. On the reverse side, space is provided for entering all of the serial payments, together with the date, the interest, and the principal.

In order to have a complete account of every mortgage loan available for quick reference, a record is kept in a looseleaf book (Figure 131). As this bank negotiates hundreds of mortgages every year, it uses this plan effectively as first aid in finding the particu-



Thursday_____ 19____

No.	Payer	Owner	Amount	When Paid	Remarks

NO.

SHERIDAN TRUST AND SAVINGS BANK

REAL ESTATE LOAN DEPARTMENT

4738 BROADWAY,

Telephone Edgewater 140 CHICAGO

THIS MORTGAGE IS OFFERED SUBJECT TO PRIOR SALE

Loan Date

Interest Per cent Payable Semi-annually

Term Years

Prepayment Privilege

SECURITY

Location

Size of Ground

Improvements

Insurance

Guarantee Policy Abstract and Opinion of Title

Borrower

SHERIDAN TRUST AND SAVINGS BANK

REAL ESTATE LOAN DEPARTMENT

4738 Broadway

NO._____ CHICAGO_____ 191__

Your note for $_____, Interest, $_____ Total, $_____

falls due_____ at this bank.

Certified checks or currency are required in payment of note

PRESENT THIS NOTICE AT WINDOW NO. 1

Saturday_____ 19____

No.	Payer	Owner	Amount	When Paid	Remarks

Figures 126, 127, and 128: These three forms have proved especially valuable to a suburban bank. The middle larger sheet is used to notify customers of offerings for investment; the small slip notifies borrowers of notes falling due. The large sheet is a daily note tickler.

THE DETROIT SAVINGS BANK

APPLICATION FOR REAL ESTATE LOAN

The undersigned hereby make application to THE DETROIT SAVINGS BANK (hereinafter called "Bank"), for a loan of $_____ for _____ years, with interest at the rate of _____ per cent., payable semi-annually, and as security for the payment of such loan agree to deliver to said Bank note and mortgage collateral thereto (in the Bank's usual form) properly executed and duly and legally recorded in the office of the Register of Deeds for Wayne County, mortgaging and warranting to said Bank, free of encumbrance, the real estate hereinafter particularly described, and further agree.

(1) That undersigned will within 30 days after the acceptance hereof furnish a Burton or Union Trust abstract of title to said real estate with full tax statements, certified to a date not more than 5 days prior to the delivery of said abstract to the Bank, showing title satisfactory to Bank's attorneys, which abstract and tax statements shall remain in the Bank's possession until the loan is fully paid.

(2) To pay the cost of examination of abstract in the event that title as shown thereby is not satisfactory to Bank's attorneys.

(3) To have the buildings on said property insured with insurers and to an amount approved by the Bank, and to assign and deliver to said Bank said insurance and the policies representing the same.

(4) That if the building or buildings on the mortgaged premises are in construction or if the loan is for the construction of a building not yet started,

(a) To allow said Bank to advance the amount of said mortgage in such instalments and in such amounts as sworn statements, and releases of liens furnished Bank in accordance with the mechanics' lien law shall show the undersigned entitled to receive consistent with the absolute protection of the priority of the mortgage.

(b) To allow the Bank to charge interest on such sums as may be advanced from the respective dates of advancement, and on the whole amount of the principal of the mortgage, whether fully advanced or not, on and after the expiration of 60 days from the execution of the mortgage.

The undersigned represent that all the statements made below are true:

Name of Mortgagor _____

Name of wife (or husband) _____ Is title joint? _____

Post office address No. _____ St. _____

Place of business _____ Occupation _____

Who holds title to premises now _____

Legal description of premises to be mortgaged _____

_____

_____ Known as No. _____ St (or Avenue)

Size of lot _____ located on the _____ side of _____ St. (or Ave.) between

_____ and _____ Sts. in the _____ ward. Paved _____

Description of buildings Construction { Frame / Brick Veneer / Brick } _____ How many stories _____

How heated _____ Basement _____ No rooms _____ When built _____

Occupied as _____ Who is now in possessior _____

What right does occupant have or claim _____

Value of land _____ $_____

Value of buildings _____ $_____

Total $_____

Insured for $_____

Annual rental $_____

Are all taxes and assessments due against this property paid? _____

Present encumbrances, amount $_____ ; to whom _____

Has the interest been promptly paid on this above mortgage? _____

For what purpose is money to be used? _____

Has said property been sold on land contract? _____ If so, to whom? _____

Dated _____ 191_____

_____

Applicant.

Figure 129: After 50 years of experience a middle western bank president has found that applications for real estate loans are far more satisfactory when they are simple and direct. He has used this one effectively. It uniformly lessens details as compared with many forms.

lars of any mortgage on file without loss of time. It is in reality a summary of the data on the loan register, which is a ponderous volume almost constantly in use.

A stub attached to the interest notice (Figure 132) simplifies the work of the bookkeeper. The borrower brings this notice to the bank when he makes a payment. The stub is than detached and goes to the bookkeepers for their guidance in making the proper entry on the records; the other section is returned to the borrower who holds it as a receipt. Thus the transaction at the wicket is really narrowed down to the removal of the stub and the receipting of the main part of the notice.

After the stub is turned in, a simple and definite record is at hand for the register (Figure 133). It is worth while noting that the register sheet supplies all of the details concerning the condition of each mortgage loan. A separate sheet is used for each loan, all the sheets being bound in a looseleaf ledger. A separate division is made for the principal account and for the interest account. Other general information relating to the loan is also supplied, so that the mortgagee or the bank can tell at a glance how the loan stands.

"By using this form of register," says an officer, "one clerk and an assistant are able to handle the accounting details of all our real estate loans, and even then they have time enough to spare to do extra work. We find that the use of this method also serves to eliminate errors because of its simplicity. It also provides for us a quick and accurate means of checking the business."

Naturally enough, handling interest for the heavy volume of real estate loan business in this bank requires a fairly close checking of details, and to make the work easier, an interest tickler (Figure 134) is provided. It consists of 180 pages, 30 for each pair of months, six months apart.

$_____$ DETROIT, MICH., _____

For Value Received _____

promise to pay to the order of The Detroit Savings Bank the principal sum of _____ Dollars,

on the _____ in the year nineteen hundred and _____ without grace, with interest at the rate of _____ per cent. per annum, payable on the _____ day of _____ next and semi-annually thereafter until said principal sum becomes due, and with interest at the rate of seven per cent. per annum upon all over-due interest or principal from the time of its maturity; both principal and interest being payable at the office of said Bank in Detroit; with the option of paying. Dollars or more of said principal sum on any date when _____ interest falls due as aforesaid, on and after one year from the date hereof.

Should default be made in the payment of any instalment of interest or of principal, and should the same remain in arrears more than thirty days, then the aforesaid principal sum shall, at the option of said Bank, become payable immediately thereafter.

This note is secured by a certain real estate mortgage of even date herewith, made by _____ to said Bank and collateral hereto, the terms and conditions of which are made a part hereof.

_____

_____

_____

Figure 130: Here is a particularly striking real estate mortgage note, on account of its simplicity. It states briefly the borrower's obligation and includes all details to be incorporated in a promise to pay.

Particulars of Mortgage Loan No. _____

Mortgagor _____

Residence, No. _____

Amount of Loan, $_____ Time, _____ years. Rate _____ %

PROPERTY.

_____ story { Dwelling / Store / Store and dwelling } No. _____

between _____ and _____

Insured for $_____ _____ Valued at $_____

Lot _____ x _____ feet, _____ Valued at $_____

Total Valuation, $_____

Remarks: _____

_____

_____

Property appraised by

_____

Date _____ 19____

Figure 131: A looseleaf mortage loan book has saved this banker a considerable amount of time. In this way he keeps complete information at hand without constant reference to the loan register.

As interest is coming due every day in the year, this tickler is a valuable record.

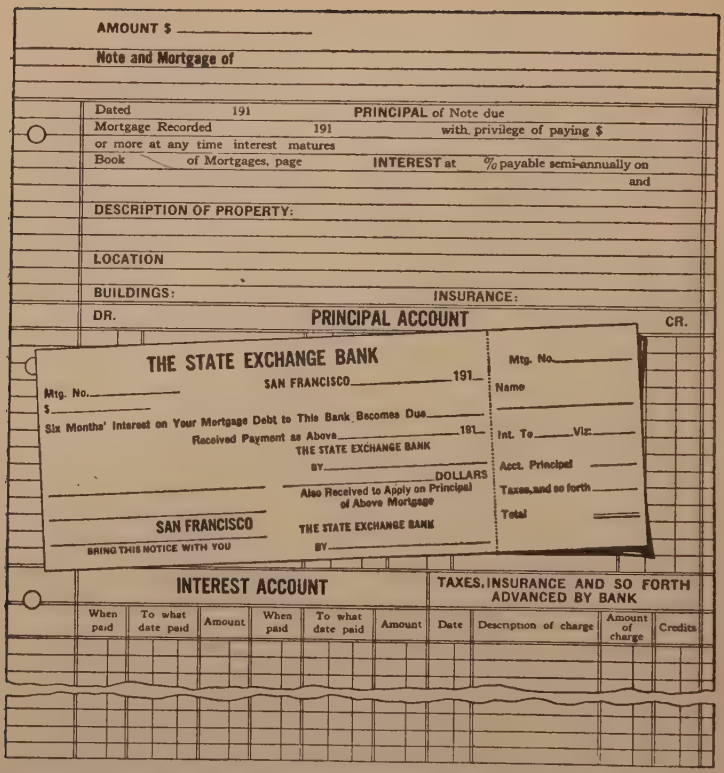
The clerk who sends out the interest due notices takes a block of blanks (Figure 132) and turns to the required date, say June 2, in the tickler. Then he stamps in the due-date space, on as many blanks as there are live numbers, the date of interest maturity. For instance, for the June 2 page, 11 blanks will be stamped in this way, and the mortgage number will be inserted in the proper space on the notice. A single checkmark is made when the work is done. The clerk then goes to the register, turns to the proper page, and fills in on the notices the interest, the name, and so on for each. For the December 2 notices this same page is used and the checkmarks are made in the second space in the year column. Following up about a month later for delinquents, the first checkmarks are cross-checked, showing that the payment or nonpayment of interest has been taken care of.

The advantages of this tickler are, first, the ease with which the interest due notices can be filled out, and second, the readiness with which information as to notification and follow-up can be had. The bank finds it is less cumbersome than a card system.

In many banks, especially in the small ones where real estate loans are only a minor part of the business, the application and the register represent the principal processes. Thus, in a small eastern trust company a simple form of application (Figure 135), showing a plat for convenience in locating the property offered for security, is the only record outside of the register. Of course, there is the note, the interest notice, the mortgage, and so on, but these are standardized forms.

This bank has adopted a method of participation investment for customers, which may be widely used.

"We found," says an official, "that our customers, especially women, had, from time to time, sums of



Figures 132 and 133: The stub attached to the interest due notice on the small form reduces the bookkeeping routine of a middle western bank. From it the necessary entries can be made on the register (large form).

MORTGAGE INTEREST DUE JUNE AND DECEMBER

MORTGAGE NO.	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
7586	X	X	✓											
9321	X	X	✓											
12432	X	X	✓											
12435	X	X	✓											
13175	X	X	✓											
13180	X	X	✓											
13190	X	X	✓											

Figure 134: A convenient mortgage interest tickler like this shows when the interest due notice has been sent and the payment made.

It is agreed that if this application is approved by The State Trust Company of Plainfield, N. J., for any amount acceptable to the applicant, the title to the real estate shall be examined by such Attorneys as the Trust Company may designate, and that all reasonable charges and expenses connected with such examination of title and the drawing of necessary papers will be promptly paid by the applicant to such Attorneys, whether the loan applied for is accepted or not.

Satisfactory references as to proposed bondsman will be required in every application.

APPLICATION FOR LOAN
TO
THE STATE TRUST COMPANY
AT PLAINFIELD, N.J.

PLAINFIELD, N.J. _____ 191_

The undersigned desires to procure a loan of $ _____ for one year at _____% per annum

on the bond of (full name) _____

Secured by mortgage on the following described property: _____

Location _____

Distance from the corner of the nearest cross street _____

Dimensions of ground _____

Dimensions and height of building _____ When constructed _____

Building materials _____

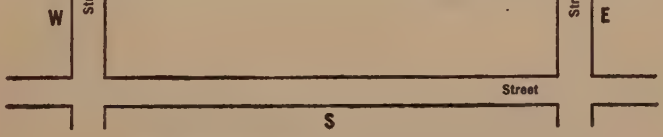
Purposes of use _____

Value of ground, $ _____
Value of building, $ _____ } Annual rent, $ _____
Assessed valuation, $ _____

Insured for $ _____

Mortgaged at present for $ _____ Held by _____

In case the applicant is married give full name of wife or husband _____



SIGNATURE OF BONDSMAN _____

ADDRESS OF BONDSMAN _____

NOTIFY _____

N. B. No application will be entertained for a greater amount than one-half of the actual value of the property. The mortgage must be a first lien and the title perfect.

Applicants should sign and present their proposals in person when practicable.

Figure 135: A small eastern trust company has devised this unusual but satisfactory real estate loan application blank. In addition to the questions, a plat shows the location of the property offered as security. This plan can be used to advantage in many banks.

money to invest in bonds and mortgages, but either did not have the exact amount of a particular mortgage or did not wish to be burdened with the details of examining the property, attending to the collection of the interest, or to the renewal of the insurance. We therefore adopted a plan of selling participations in our mortgage loans.

Suppose the applicant has $500, or a multiple thereof, that she desires to invest. The bank submits a list of available mortgages, and when a choice has been made, assigns a participation in the one selected, bearing, say 5%, the bank receiving 5½ or 6% from the customer. These mortgages are taken primarily for the investment of the bank's funds. The property is carefully appraised, the title searched, and all regular formalities are properly attended to. Promptly on the dates, December 1 and June 1, the bank sends its check to the investor for the amount due, even though the borrower delays payment of interest for a few days. Then the bank agrees with the purchaser of the participation that if, during normal times, she wishes to use the money so invested, it will take back the participation with interest to the date on which it is returned. This provides the purchaser with an investment, drawing 5% interest from the date of purchase, in a mortgage, the title of which has been carefully searched and all details properly handled.

This method has become popular, especially with women who are not familiar with business details, and, besides providing an attractive means of serving women customers, it brings more business to the bank.

It is probable that some banks are overlooking these opportunities. This chapter shows how a banker can inject new life into the real estate loan department and how he can make its effective operation serve to bring additional business.

CHAPTER XVI

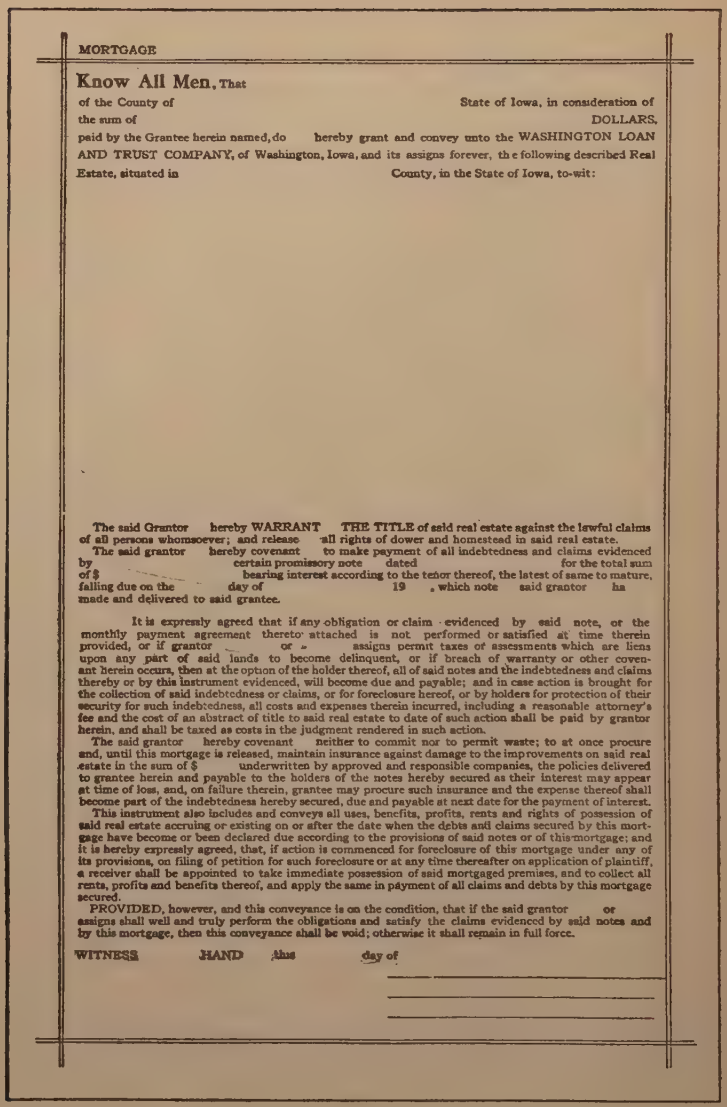
HANDLING THE HOME BUILDER'S BUSINESS

A CERTAIN Iowa bank won profitable business by lending to home builders on a simple and tangible plan providing for repayment by instalments. Ordinarily the idea might sound impracticable for the banker, yet it has been tested in varying forms, not only by this bank but by a number of others in various cities. It has proved worth while not only in point of actual earnings, but has also stimulated general business by giving customers a stronger incentive to save.

Investigation has indicated, of course, to those who have studied the subject carefully, that building and loan associations have largely covered the field of financing the home builder, for the reason, no doubt, that repayment under this method is by instalments over an extended period. In some instances, however, the interest rate is said to have been so high that it lessened the complete success of the plan.

The methods used by the Iowa bank are, therefore, of exceptional interest, for they suggest opportunities for other banks to encourage savings and gain new customers in a field into which they might ordinarily hesitate to enter. Its plan for instalment payments on loans is set forth in attractive literature like that illustrated on page 147 of the volume on advertising and service, which the bank distributes over the counter and through the mail.

When a prospect wishes to borrow money to buy or build a new home, or remodel the old one, he is offered,



MORTGAGE

Know All Men, That

of the County of State of Iowa, in consideration of the sum of DOLLARS, paid by the Grantee herein named, do hereby grant and convey unto the WASHINGTON LOAN AND TRUST COMPANY, of Washington, Iowa, and its assigns forever, the following described Real Estate, situated in County, in the State of Iowa, to-wit:

The said Grantor hereby WARRANT THE TITLE of said real estate against the lawful claims of all persons whomsoever; and release all rights of dower and homestead in said real estate.

The said grantor hereby covenant to make payment of all indebtedness and claims evidenced by certain promissory note dated for the total sum of $ bearing interest according to the tenor thereof, the latest of same to mature, falling due on the day of 19 , which note said grantor ha made and delivered to said grantee.

It is expressly agreed that if any obligation or claim evidenced by said note, or the monthly payment agreement thereto attached is not performed or satisfied at time therein provided, or if grantor or assigns permit taxes or assessments which are liens upon any part of said lands to become delinquent, or if breach of warranty or other covenant herein occurs, then at the option of the holder thereof, all of said notes and the indebtedness and claims thereby or by this instrument evidenced, will become due and payable; and in case action is brought for the collection of said indebtedness or claims, or for foreclosure hereof, or by holders for protection of their security for such indebtedness, all costs and expenses therein incurred, including a reasonable attorney's fee and the cost of an abstract of title to said real estate to date of such action shall be paid by grantor herein, and shall be taxed as costs in the judgment rendered in such action.

The said grantor hereby covenant neither to commit nor to permit waste; to at once procure and, until this mortgage is released, maintain insurance against damage to the improvements on said real estate in the sum of $ underwritten by approved and responsible companies, the policies delivered to grantee herein and payable to the holders of the notes hereby secured as their interest may appear at time of loss, and, on failure therein, grantee may procure such insurance and the expense thereof shall become part of the indebtedness hereby secured, due and payable at next date for the payment of interest.

This instrument also includes and conveys all uses, benefits, profits, rents and rights of possession of said real estate accruing or existing on or after the date when the debts and claims secured by this mortgage have become or been declared due according to the provisions of said notes or of this mortgage; and it is hereby expressly agreed, that, if action is commenced for foreclosure of this mortgage under any of its provisions, on filing of petition for such foreclosure or at any time thereafter on application of plaintiff, a receiver shall be appointed to take immediate possession of said mortgaged premises, and to collect all rents, profits and benefits thereof, and apply the same in payment of all claims and debts by this mortgage secured.

PROVIDED, however, and this conveyance is on the condition, that if the said grantor or assigns shall well and truly perform the obligations and satisfy the claims evidenced by said notes and by this mortgage, then this conveyance shall be void; otherwise it shall remain in full force.

WITNESS HAND this day of

Figure 136: After the home builder's application has been accepted the bank fills in the mortgage form like this which the borrower signs in the usual way. The bank thus is protected in making the loan. The blank is illustrated because of its simplicity and completeness.

HOME-BUILDERS LOAN DEPARTMENT, WASHINGTON LOAN AND TRUST COMPANY
WASHINGTON, IOWA

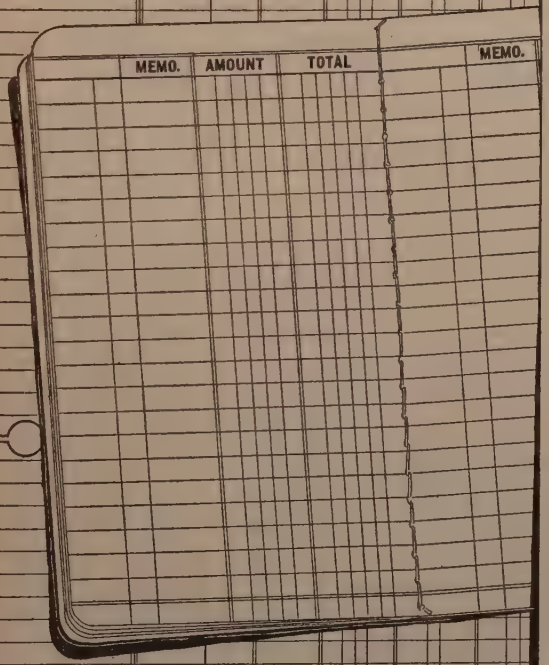
LOAN NUMBER _____

Due _____ Amount $ _____ Maker _____

Date _____ Rate ___ % Semi-Annually Address _____ Deposit $ _____ Interest $ _____ Total Payment $ _____

SPECIAL PROVISIONS	DESCRIPTION OF PROPERTY

Month	Day	Memo-randum	Deposit	Interest	Dividend	Total Interest	Total Deposit	Month	Day	Memo-randum	Deposit	Interest	Dividend	Total Interest	Total Deposit



HOME-BUILDERS LOAN DEPARTMENT
WASHINGTON LOAN AND TRUST COMPANY

$ _____ No. _____

Washington, Iowa _____ 191__

On the _____ day of _____, we promise to pay to the order of

Washington Loan and Trust Company

at its office in Washington, Iowa

_____ DOLLARS,

with _____ %, interest per annum from date _____ payable semi-annually, with eight % interest per annum, payable semi-annually, on all payments of principal or interest in default. Value Received. All signers and indorsers hereof are to be deemed principals, and hereby waive demand, protest and notice of non-payment.

If default is made in any payment of this note, we agree to pay all costs of collection of same by suit or otherwise, including a reasonable attorney's fee. Any Justice of the Peace may have jurisdiction on this note to the extent of Three Hundred Dollars.

_____

_____

_____

MONTHLY PAYMENT AGREEMENT

It is hereby expressly agreed between the makers hereof and the Washington Loan and Trust Company that the makers shall pay into an account in the Home-Builders Loan Department of the said Trust Company the sum of $_____ on the first day of each month hereafter until _____ such payments have been made; the said account, together with the dividends apportioned thereto by the said Trust Company, shall be applied to the payment of principal and interest of the foregoing note, and shall constitute full payment thereof. Such application shall be made at maturity of the note or at such times prior to maturity as the said Trust Company, its successors or assigns may determine.

_____

_____

Insert VIII: Here are three effective forms used by a western trust company to handle home builders' loans. The small illustration to the left represents an open pass book, with extra columns for memoranda. To the right is the monthly payment agreement sheet which is self-explanatory. The large form shows a page from the loan register on which a record of the entire loan transaction is kept. It is made up with spaces for the name of the maker, for the amount and the number of the loan, and so on.

INSERT VIII

of course, the alternative of a straight loan, granting his credit is adequate, or one providing for monthly repayments as suggested above. The instalment plan has proved effective in gaining the attention of borrowers. Loans of this kind usually are made in amounts running from $500 to $3,000, although the average during the course of a year was $933.

Let us say that a working man wants to borrow $800 to improve his home. He calls at this bank and receives an application blank to fill out. He answers any further questions which the banker may ask about his financial condition, and if these details are satisfactory, he signs a mortgage (Figure 136) and also a regular note with a monthly payment agreement attached (Insert VIII). It provides that on each $100 borrowed he pay $1.25 a month for 120 months (or 10 years), this amount to mature both principal and interest. After he signs up, he receives a pass book (Insert VIII) which bears the number of the loan and the number of the account, together with the amount of the required monthly payment. When he makes the payments, the bank enters them in this pass book. Of the monthly payment of $1.25, 60 cents goes into a deposit on which dividends or interest are allowed, and 65 cents goes to pay the interest on the loan, thus making a borrowing rate of 7.8%.

To take care of the accounting expeditiously, a looseleaf ledger is used (Insert VIII). On this sheet is a column for the total interest and the total deposit. The clerk proving this ledger has to check up on the sheet these two items.

Every six months the bank allows the customer interest on the total deposit account. The correct amount is found by adding the totals of each month, dividing the result by 2, and pointing off two places.

When the customer wishes to make a deposit, the bank provides a special form of deposit ticket (Figure

Loan No._____ Account No._____

Home-Builders Loan Department
Washington Loan and Trust Company

CREDIT

	Deposit	Interest	Total

Figure 137: This is the credit deposit slip which the bank uses to handle the accounts of customers making payments under the home builders' plan. It is a handy record for the teller to check up his work.

NO. 102 **NAME** Charles Gates.

ADDRESS Washington, Iowa.

Dated 1-1-18 Due 1-1-28

$800 Amount of Loan

$10 Monthly Payment

Figure 138: The loan department keeps a card index record of each borrower, entering the chief facts of the transaction as shown above. This card is especially valuable for reference to customers at any time.

WITHDRAWAL VALUE AT THE END OF EACH YEAR										
MONTHLY PAYMENT	1	2	3	4	5	6	7	8	9	10
$1	12.26	25.01	38.55	52.57	68.08	83.80	102.15	120.12	142.34	166.66
2	24.52	50.02	77.10	105.14	136.16	167.61	204.30	240.25	284.69	333.33
3	36.78	75.03	115.65	157.72	204.24	251.42	306.45	360.38	427.03	500.00
4	49.04	100.04	154.20	210.29	272.32	335.23	408.60	480.50	569.38	666.66
5	61.30	125.05	192.75	262.87	340.40	419.04	510.76	600.63	711.73	833.33
6	73.56	150.06	231.30	315.44	408.48	502.85	612.91	720.76	854.07	1000.00
7	85.82	175.07	269.85	368.01	476.56	586.66	715.06	840.88	996.42	1166.66
8	98.08	200.08	308.40	420.59	544.64	670.47	817.21	961.01	1138.76	1333.33
9	110.34	225.09	346.95	473.16	612.72	754.28	919.36	1081.14	1281.11	1500.00
10	122.60	250.10	385.50	525.74	680.80	838.09	1021.52	1201.27	1423.45	1666.66

Figure 139: This table used by a southern banker shows how much depositors are entitled to of principal and interest at 6%, at the end of each year on monthly deposits of from $1 to $10. It saves a lot of time.

WITHDRAWAL VALUE AT THE END OF EACH YEAR										
Class "B"										
SINGLE PAYMENT	1	2	3	4	5	6	7	8	9	10
$ 100	104.00	108.16	114.11	119.25	127.62	134.00	145.46	153.46	168.95	180.61
500	520.00	540.80	570.58	596.25	638.13	670.04	727.33	767.34	844.73	903.05
1000	1040.00	1081.60	1141.16	1192.51	1276.27	1340.09	1454.67	1534.68	1689.47	1806.11
5000	5200.00	5408.00	5705.82	5962.58	6381.39	6700.45	7273.39	7673.42	8447.36	9030.55
Class "C"										
$ 560	582.40	605.69	639.04	567.79	714.71	750.44	814.59	859.39	946.07	1000.00
OTHER AMOUNTS IN THE SAME PROPORTION										

Figure 140: The table shown here is a continuation of Figure 139, except that class B provides for regular savings and class C for savings bonds. These cards visualize interest earnings on the various accounts.

137), which shows the teller the number of the loan, the number of the account, the amount of the deposit, the interest, and the total. On the day that the banker credits up the dividend interest allowed, he deducts all the interest the customer has paid as shown in the total interest column and credits it to the interest account in the general ledger. The amount of dividends allowed, he charges to interest paid. At the end of 10 years the total deposit column should amount to the face of the loan. The bank, therefore, charges this figure out of the deposit column and cancels the loan. Nothing is ever credited on the loan until it has matured, when, as indicated, it is automatically canceled.

The ledger sheet shown in Insert VIII is used both as a loan register and as a deposit register. The loans are all entered numerically and a complete record of the transaction is made at the top of the ledger page. This record remains unchanged until the loan is paid.

An alphabetical card index is also kept, as indicated in Figure 138. This card gives the date of the maturity of the loan and the amount of the monthly payment. Thus the ledger sheet and the card index are the only two strictly accounting records required. All papers covering the loan are placed in a heavy manila envelop and filed alphabetically in the vault. In order to simplify the bookkeeping and to see that each payment is made promptly, the deposit tickets are made out along toward the end of the month and then put in a file in the teller's cage. When a pass book comes in, the teller finds it easy to glance at the number on the book, pull out the corresponding slip in the file, compare the amount on the slip with that in the book, to be sure that it is for the right amount, and then date it. On the fifth of the month he checks up the slips left in the file to see if any have been paid, and then notifies the delinquent borrowers.

The bank also accepts savings in this home builders' department and pays 6% interest. For example, a depositor may have $100, $500, $1,000, or any amount in even hundreds of dollars, which he wishes to put out at a profitable rate of interest. He can deposit it and receive dividends at the rate of 6% annually, payable semiannually, January 1 and July 1. He may withdraw these dividends or, if he wishes, may leave them to accumulate at the same rate as the principal, which is due for payment ten years from the date when it was deposited. The money is always subject to withdrawal according to the tables showing withdrawal values (Figures 139 and 140).

FAR-SEEING BANKERS ARE TAKING ADVANTAGE OF THE POSSIBILITIES OF FINANCING THE HOME BUILDER

For salaried people or others who wish to put away a fixed sum and leave the principal and interest to accumulate for ten years, the bank issues savings bonds, called "Series C." These bonds are issued at any time in multiples of $56 and mature at $100 or its multiples, provided no dividends are withdrawn during the period. In other words, if the customer deposits $56 with the bank, he receives $100 in ten years; if he deposits $560 he receives $1,000. All deposits in the department are subject to withdrawal privileges as indicated in the rules (Figure 141).

The accounts which are drawing 6% interest are entered on ledger pages having only three columns, "the deposit," "the dividend," and "the total." These ledger sheets are kept in the binder with the loan sheets, already described, but are designated as account numbers instead of as loan numbers. The total deposit of these savings is kept in the same account in the general ledger as the total loan deposit, because both are allowed the same rates of interest and receive virtually the same amount of clerical attention.

RULES

Rules of the Home-Builders Loan Department of the Washington Loan & Trust Company, of Washington, Ia., governing Debenture Accounts and Loans.

1. *Debenture Feature.* All payments into this Department are kept separate from the other funds of the Trust Company, and all notes and securities are deposited under contract (to which reference is hereby made) with the Trustees appointed by the Company to hold said securities for the benefit and protection of the patrons of the Department.

2. *Monthly Payments.* Monthly payments on the accounts of borrowers shall be made in accordance with the Monthly Payment Agreement attached to the note; and in the case of investors, according to the Contract included herein. Larger payments than those specified may be made at any time, which shall be entitled to proportionate dividends and may be used to hasten the maturity of loans; or, in the case of investors, to increase the amount guaranteed in the Contract.

3. *Single Payments.* Single payments of any amount in even hundreds will be received, to which additions may be made, but are not required.

4. *Dividends.* Dividends shall be apportioned on January 1 and July 1 of each year to all monthly accounts not in arrears, sufficient in the case of investors to mature the sum named in the Contract at the time stated; and in the case of borrowers, to provide for the full payment of the loan at maturity. No dividends will be apportioned or paid on accounts in arrears. On single payment accounts, dividends for full calendar months at the rate of $3.00 per $100 for each six months shall be credited at same dates, which may be withdrawn or left to accumulate at the option of the investor.

5. *Withdrawal by Investor.* If there is no indebtedness to the Trust Company, accounts not in arrears may be withdrawn in whole or in part at any dividend date on 30 days written notice specifying the amount to be withdrawn. In case of withdrawal, as above provided, annual interest for full calendar months shall be paid on the amount withdrawn at the following rates, which shall be in lieu of all dividends:

Figure 141: One of the important features of a home builders' loan plan is to have every borrower understand thoroughly just how it works out. Unless every provision of the transaction is perfectly plain, dissatisfaction is more than likely to arise among customers to

If within 2 years.....4 %
From 2 years to 4 years.....4½%
From 4 years to 6 years.....5 %
From 6 years to 8 years.....5½%
After 8 years.....6 %

The time in the above table will be computed from the first dividend date after the account was opened. Accounts in arrears may be withdrawn under the above provisions, except that interest will be allowed on such accounts only to the date on which payments became delinquent.

6. *Loan Value.* Unless otherwise pledged accounts shall be entitled to loans by holders thereof up to 90% of the withdrawal value, at the current rate of interest charged for real estate loans in this Department.

7. *Assignments.* Accounts may be assigned, but no assignment shall be valid without the consent of the Trust Company endorsed thereon and said Company shall have the right to apply an account to the payment of any indebtedness due it from the holder thereof.

8. *Cancelation.* In case this Department shall accumulate funds in excess of the demand for loans in accordance with its rules, or if for any reason it is deemed expedient, the account not being security for any loan, the Trust Company expressly reserves the right to pay any account in full on any dividend date on 30 days' written notice. In case of such notice the investor shall receive the full amount of all dividends credited up to the time the account is called for payment, and thereafter no dividends or interest shall accrue thereon.

9. *Reinstatement.* Monthly Payment Accounts not more than three months in arrears may be reinstated by the payment of the amounts delinquent and an equal number of payments in advance; or by the payment of the several amounts due with 8% interest.

10. *Prepayment of Loans.* All loans with Monthly Payment Agreement may be paid before maturity on January 1 or July 1 in any year on 30 days' written notice. In case of such prepayment the borrower shall be charged with interest to date of payment and shall receive credit for the withdrawal value of his account, as provided in paragraph 5.

11. *Minors.* Accounts in this Department opened and maintained by minors shall be subject to their exclusive control unless otherwise stated in the Contract.

the direct disadvantage of the bank. To cover this important point thoroughly, this bank distributes to borrowers printed rules like those which are illustrated here. Note particularly the way in which each provision is numbered and emphasized by the headings in italics.

When the bank makes a loan, it deposits the note and mortgage, which have been taken as security, with the same trustees who hold the securities backing the bank's debenture bonds, and, as a matter of safety, the bank agrees to back up the deposits in the home builders' department with mortgages in an equal or greater total amount. One of the really important advantages of this plan is that it reaches out for the small borrower and provides worth-while banking facilities for him in much the same way that the "Christmas savings club" performs a definite function for the small saver.

Since the method of handling the security is similar to the debenture bond plan, the bank is relieved of having to carry a large cash reserve on hand, which enables it to lend the full amount of money and at the same time to pay the depositors a higher rate of interest.

This, then, describes a proved method for keeping funds safely and profitably invested, especially when money is plentiful. Ordinarily, of course, most country bankers are fairly successful in placing the greater part of their available funds to advantage. Often, too, banks control a building and loan association, operating somewhat on the lines outlined, as a subsidiary. This helps to increase profits, while bearing a proportionate share of the operating expense. Usually, however, when deposits begin to soar, due perhaps to increased activities in manufacturing centers or increased prices paid to producers of living necessities, the profitable disposal of the accumulating surplus receives careful planning and foresight.

Under these circumstances, the banker often finds that he can call upon his city correspondent for purchasable loans, acquire commercial paper in the open market from note brokers, or put his money in municipal bonds, or in other equally safe and profitable investments. But perhaps the reserve city bank is unable

Instalment Mortgage

THE FEDERAL TITLE AND TRUST COMPANY of Beaver Falls

BEAVER FALLS, PA._____ 19 _

APPLICATION FOR LOAN

To the President and Board of Directors of the Federal Title and Trust Company of Beaver Falls:

Sirs:—I desire to obtain a loan of $_____ to bear interest at 6 % per annum to be paid $ _____ monthly, principal and interest, at the office of the above Company in Beaver Falls, Pennsylvania, and offer as security, LAND valued at $_____, BUILDINGS at $ _____ STABLE at $ _____ and additional security of _____

_____ Value $ _____ Have insurance on buildings of $_____

LOCATION OF PROPERTY AND SO FORTH

Town_____ Street_____ House No._____ Lot No._____

Number rooms?_____, bathroom?_____, Furnace?_____, Is house frame or brick?_____

Size of Lot?_____ by _____ feet — Has house sewer connections?_____

Size of house_____ by _____ feet — Has house plumbing for hot and cold water?_____

Size of celler_____ by _____ feet — Has house well, cistern or city water?_____

Size of stable_____ by _____ feet — Has house finished attic?_____

What kind of sidewalk?_____ — What kind of roof?_____

Name of present occupant_____ House was built_____

Property used for what purpose?_____

GENERAL INFORMATION:

Name of applicant in full _____ P. O. Address _____

Married_____ Full name of husband or wife_____

Occupation_____ Where employed?_____ Age_____ Years

Who owns property on which loan is asked?_____

Did applicant get property by deed, will or descent?_____

From whom?_____ How long have you owned the property?_____ Years.

Has any other person any life estate or other interest in property?_____

What did you pay for it? $_____ How much do you owe on it? $_____ Are all taxes paid?_____

For what purpose do you want this loan?_____

Is the property encumbered by mortgage, judgments or other liens? If so state particulars_____

_____ Can lien be paid now?_____

DESCRIPTION OF PROPERTY IN DEED.

If this application is accepted I will pay for the examination of the title to the lands proposed as security, for the recording of the mortgage, preparations of papers, and all other expenses of the loan, and I authorize the Company to deduct these expenses from said loan, and to pay therefrom all liens. I agree to insure the buildings on said premises in the sum required by the Company or to pay the Company for so doing, and to secure the insurance to the Company in a manner satisfactory to it.

Beaver Falls, Pa. _____ 19 _____

_____ Applicant

Figure 142: A home builder's application for an instalment mortgage loan should be very inclusive, according to the opinion of one progressive banker who uses this style effectively. It provides for a complete description of the property given as security and other data.

to furnish the required amount in loans, or the commercial paper market lacks attractive offerings. It is, then, essential for the banker to find some other form of investment, such as the home-building plan which has been described above.

Another successful method of meeting these occasional market shortcomings is a Pennsylvania trust company's instalment mortgage plan for investing its surplusage to yield a reasonable return, and at the same time be fairly liquid.

While this bank under its charter is permitted, like many similar financial institutions, to purchase mortgages, it had previously taken them primarily for the purpose of investing its trust funds. Since one of the fundamental principles of the banking business is, of course, to avoid tying up funds in long-time loans, and possibly meeting difficulty in liquidating them in case of a stringency, further investment in mortgages seemed almost prohibitive. It was on this account that the instalment mortgage idea, which will now be described, was put in force.

This mortgage provides for its repayment to the bank on small monthly instalments which reduce the principal by a definite and reasonable method. It thus creates for the banker an investment which is gradually but surely liquidated and which nets a larger income than average loans produce. At the same time it offers an attractive type of loan to small borrowers. By it this bank has built up an added list of desirable customers who let no opportunity go by to advertise the rather unique service. If there were only a slight profit on the loans, the idea would still be worth while because of the general business it brings in. The bank fixed upon a mortgage running 10 years and requiring a monthly payment of $11.15 on each $1,000. The following table shows how this payment of $11.15 is applied during the life of the loan:

FIRST YEAR

Month	Instalment	Interest	Balance
1	$6.15	$5.00	$993.85
2	6.18	4.97	987.67
3	6.21	4.94	981.46
4	6.24	4.91	975.22
5	6.27	4.88	968.95
6	6.30	4.85	962.65
7	6.34	4.81	956.31
8	6.37	4.78	949.94
9	6.40	4.75	943.54
10	6.43	4.72	937.11
11	6.46	4.69	930.65
12	6.50	4.65	924.15

SECOND YEAR

Month	Instalment	Interest	Balance
13	$6.53	$4.62	$917.62
14	6.56	4.59	911.06
15	6.59	4.56	904.47
16	6.63	4.52	897.84
17	6.66	4.49	891.18
18	6.69	4.46	884.49
19	6.73	4.42	877.76
20	6.76	4.39	871.00
21	6.79	4.36	864.21
22	6.83	4.32	857.38
23	6.86	4.29	850.52
24	6.90	4.25	843.62

THIRD YEAR

Month	Instalment	Interest	Balance
25	$6.93	$4.22	$836.69
26	6.96	4.19	829.73
27	7.00	4.15	822.73
28	7.04	4.11	815.69
29	7.07	4.08	808.62
30	7.11	4.04	801.51
31	7.15	4.00	794.36
32	7.18	3.97	787.18
33	7.21	3.94	779.97
34	7.25	3.90	772.72
35	7.29	3.86	765.43
36	7.32	3.83	758.11

FOURTH YEAR

Month	Instalment	Interest	Balance
37	$7.36	$3.79	$750.75
38	7.40	3.75	743.35
39	7.43	3.72	735.92
40	7.47	3.68	728.45
41	7.51	3.64	720.94
42	7.55	3.60	713.39
43	7.58	3.57	705.81
44	7.62	3.53	698.19
45	7.56	3.49	690.53
46	7.70	3.45	682.83
47	7.74	3.41	675.09
48	7.78	3.37	667.31

FIFTH YEAR

Month	Instalment	Interest	Balance
49	$7.81	$3.34	$659.50
50	7.85	3.30	651.65
51	7.89	3.26	643.76
52	7.93	3.22	635.83
53	7.97	3.18	627.86
54	8.01	3.14	619.85
55	8.05	3.10	611.80
56	8.09	3.06	603.71
57	8.13	3.02	595.58
58	8.17	2.98	587.41
59	8.21	2.94	579.20
60	8.25	2.90	570.95

SIXTH YEAR

Month	Instalment	Interest	Balance
61	$8.30	$2.85	$562.65
62	8.34	2.81	554.31
63	8.38	2.77	545.93
64	8.42	2.73	537.51
65	8.46	2.69	529.05
66	8.50	2.65	520.55
67	8.55	2.60	512.00
68	8.59	2.56	503.41
69	8.65	2.52	494.78
70	8.68	2.47	486.10
71	8.72	2.43	477.38
72	8.76	2.39	468.62

SEVENTH YEAR

Month	Instalmen	Interest	Balance
73	$8.81	$2.34	$459.81
74	8.85	2.30	450.96
75	8.90	2.25	442.06
76	8.94	2.21	433.12
77	8.98	2.17	424.14
78	9.03	2.12	415.11
79	9.08	2.07	406.03
80	9.12	2.03	396.91
81	9.17	1.98	387.74
82	9.21	1.94	378.53
83	9.26	1.89	369.27
84	9.30	1.85	359.97

EIGHTH YEAR

Month	Instalment	Interest	Balance
85	$9.35	$1.80	$350.62
86	9.40	1.75	341.22
87	9.44	1.71	331.78
88	9.49	1.66	322.29
89	9.54	1.61	312.75
90	9.59	1.56	303.16
91	9.64	1.51	293.52
92	9.69	1.46	283.83
93	9.73	1.42	274.10
94	9.78	1.37	264.32
95	9.83	1.32	254.49
96	9.88	1.27	244.61

NINTH YEAR

Month	Instalment	Interest	Balance
97	$9.93	$1.22	$234.68
98	9.98	1.17	224.70
99	10.03	1.12	214.67
100	10.08	1.07	204.59
101	10.13	1.02	194.46
102	10.18	.97	184.28
103	10.23	.92	174.05
104	10.28	.87	163.77
105	10.33	.82	153.44
106	10.38	.77	143.06
107	10.43	.72	132.63
108	10.49	.66	122.14

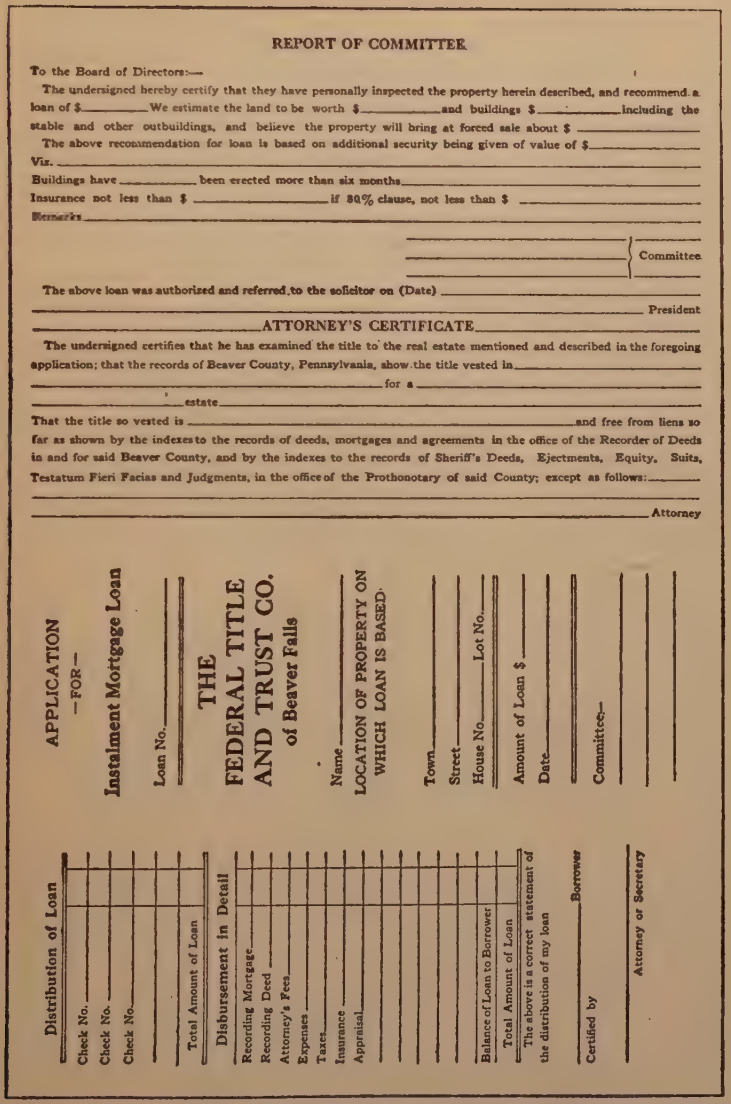
TENTH YEAR

Month	Instalment	Interest	Balance
109	$10.54	$0.61	$111.60
110	10.59	.56	101.01
111	10.64	.51	90.37
112	10.70	.45	79.67
113	10.75	.40	68.92
114	10.81	.34	58.11
115	10.86	.29	47.25
116	10.91	.24	36.34
117	10.97	.18	25.37
118	11.02	.13	14.35
119	11.08	.07	3.27
120	3.27	.01	.....

This table shows concisely the balance due semi-annually during the life of the loan and indicates the regularity with which it is reduced:

6 months, balance due	$962.65
1 year, balance due	924.15
1½ years, balance due	884.49
2 years, balance due	84.362
2½ years, balance due	801.51
3 years, balance due	758.11
3½ years, balance due	713.39
4 years, balance due	667.31
4½ years, balance due	619.85
5 years, balance due	570.95
5½ years, balance due	520.55
6 years, balance due	468.62
6½ years, balance due	415.11
7 years, balance due	359.97
7½ years, balance due	303.16
8 years, balance due	244.61
8½ years, balance due	184.28
9 years, balance due	122.14
9½ years, balance due	58.11
10 years, balance due	nothing

As the payment of $11.15 a month for 120 months amounts to $1,338, the depositor is actually paying $338, or a trifle over 3% interest on the mortgage during the life of the loan.



REPORT OF COMMITTEE

To the Board of Directors:—

The undersigned hereby certify that they have personally inspected the property herein described, and recommend a loan of $_____ We estimate the land to be worth $_____ and buildings $_____ including the stable and other outbuildings, and believe the property will bring at forced sale about $_____

The above recommendation for loan is based on additional security being given of value of $_____

Viz. _____

Buildings have _____ been erected more than six months

Insurance not less than $_____ if 80% clause, not less than $_____

Remarks _____

_____ } Committee

The above loan was authorized and referred to the solicitor on (Date) _____

_____ President

ATTORNEY'S CERTIFICATE

The undersigned certifies that he has examined the title to the real estate mentioned and described in the foregoing application; that the records of Beaver County, Pennsylvania, show the title vested in _____ for a _____ estate

That the title so vested is _____ and free from liens so far as shown by the indexes to the records of deeds, mortgages and agreements in the office of the Recorder of Deeds in and for said Beaver County, and by the indexes to the records of Sheriff's Deeds, Ejectments, Equity, Suits, Testatum Fieri Facias and Judgments, in the office of the Prothonotary of said County; except as follows: _____

_____ Attorney

APPLICATION
—FOR—
Instalment Mortgage Loan

Loan No. _____

THE
FEDERAL TITLE
AND TRUST CO.
of Beaver Falls

Name _____

LOCATION OF PROPERTY ON WHICH LOAN IS BASED

Town _____
Street _____
House No. _____ Lot No. _____

Amount of Loan $ _____
Date _____

Committee—
_____
_____
_____

Distribution of Loan

Check No. _____
Check No. _____
Check No. _____

Total Amount of Loan

Disbursement in Detail

Recording Mortgage _____
Recording Deed _____
Attorney's Fee _____
Expenses _____
Taxes _____
Insurance _____
Appraisal _____

Balance of Loan to Borrower

Total Amount of Loan

The above is a correct statement of the distribution of my loan

_____ Borrower

Certified by

_____ Attorney or Secretary

Figure 143: On the other side of the sheet shown in Figure 142, the committee which passes on the instalment mortgage application enters its report as indicated above. The attorney's certificate and the figures on the distribution and disbursement of the loan are also included.

THIS MORTGAGE

Made the day of in the year of Our Lord one thousand nine hundred and

By

mortgagor , to

The Federal Title and Trust Company of Beaver Falls, Pa., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, having its place of business in the Borough of Beaver Falls, Beaver County, Pennsylvania, mortgagee, witnesseth:

Whereas, the said

by bond of even date herewith, stand bound unto the said mortgagee in a certain penal sum, conditioned for the payment of the sum of

Dollars, together with interest thereon at the rate of %, per annum, in instalments of not less than dollars each; the first instalment to be paid month after the date hereof, at the office of said mortgagee.

and, all premiums and charges for such insurance on the mortgaged buildings, as shall from time to time be demanded or taken out by the mortgagee, its successors or assigns, to better secure the said debt and interest and all taxes and municipal claims against the mortgaged premises, as soon as payable, penalties and costs, which if paid by the mortgagee, its successors or assigns, may be added to said real debt and when requested shall exhibit to said mortgagee the evidence of payment of said taxes and claims and also, in case of default, all fees, costs, and expenses of collection, including an attorney's commission of five %.

Now therefore, the said mortgagor , in consideration of one dollar to be paid by the said mortgagee, and for securing payment and performance as aforesaid, do grant, bargain, sell, and convey unto the said mortgagee, its successors and assigns ,

Figure 144: This simple mortgage form used for loans granted to home builders has been particularly valuable to a Pennsylvania bank. It covers every necessary detail regarding the loan so that the bank quickly gains a clear understanding of the terms of payment and so on

with the appurtenances; to have and to hold the same unto, and for the use of the said mortgagee its successors and assigns.

Provided, however, that if the said mortgagor pay and perform, according to the condition of said bond, everything to be paid and performed as aforesaid, including the exhibiting of receipts for taxes and municipal claims when requested, then the estate hereby conveyed and granted shall become and be void.

But in case of default of such payment or performance at any time or in any particular, for the space of fifteen days, every sum to be paid as aforesaid shall then become and be payable forthwith, and a writ of Scire Facias hereon may forthwith be issued, and prosecuted to judgment and execution, for the same, with interest and all damages for default and costs, and with an Attorney's commission of 5% for collection. And all stay of execution which is or shall be given by law, is waived.

Witness the hand and seal of said mortgagor.

_____ SEAL

_____ SEAL

_____ SEAL

_____ SEAL

_____ SEAL

_____ SEAL

Attest:

_____

_____

Commonwealth of Pennsylvania
County of Beaver } ss.

Before me, a _____ in and for said County and State on this _____ day of _____ A. D. 19____, came the above named _____

_____

_____

and acknowledged this Mortgage to be _____ act and deed, to the end that it may be recorded as such.

Witness my hand and _____ seal.

_____

My Commission Expires _____

Certificate of Residence

I, _____ Attorney for the mortgagee, do hereby certify that the precise residence of the mortgagee is No. 1027 Seventh Avenue, Beaver Falls, Pa.

Witness my hand this _____ day of _____ 19

_____

Attorney for Mortgagee.

without referring to the general records. This is one instance where far-fetched technicalities have been replaced by clear wording—a plan that is now widely adopted and encouraged among the progressive banks in the country. The arrangement of the wording is interesting.

When the borrower applies for funds under this plan, he is handed an application form. This is reproduced in Figure 142. Besides furnishing an accurate description of the property, the form also provides for detailed general information of value to the bank.

On the reverse side (Figure 143) there are spaces for the report of the committee which passes on the application, for the certificate of the attorney, and for the distribution and disbursement of the loan in detail.

A SYSTEM THAT ENABLES THE BANKER TO TELL AT A GLANCE THE CONDITION OF A LOAN

A mortgage like that shown in Figure 144 is then drawn up and, after this is negotiated, the amount of the loan is passed to the credit of the borrower who receives a pass book covering the account. This pass book shows at a glance the condition of an account from month to month and is, therefore, of special value to the bank as well as to the customer in determining the exact conditions of the loan at any time.

The bookkeeping task incidental to this plan is simplified by the use of a looseleaf ledger form (Insert IX) which provides for the entire history of each individual loan together with a tabulation of payments entered on both the front and reverse sides, interest payments, and balance for every month in the year. As each side of the sheet allows a record of this sort for six years, the form really provides for a period of 12 years. A glance at the record will disclose the condition of the account at any time.

There is a further advantage also of keeping all the desirable notations on a single sheet. In any loan of this type, it is essential to keep track of the payments of insurance and taxes on the property held as security. When the borrower makes a payment, it is noted on a form like Insert IX which gives the amount credited to principal, the tax receipts shown, and the balance.

KNOW ALL MEN BY THESE PRESENTS,

THAT

held and firmly bound unto **The Federal Title and Trust Company of Beaver Falls, Pa.**, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, having its place of business in the Borough of Beaver Falls, Beaver County, Pennsylvania, in the sum of

Dollars,

to be paid to the said THE FEDERAL TITLE AND TRUST COMPANY OF BEAVER FALLS, PA., its certain attorney, successor or assigns; to which payment well and truly to be made . do bind heirs, executors and administrators, and every one of them, jointly and severally by these presents.

And do hereby empower any attorney of any Court of Record within the United States or elsewhere, to appear for and with or without declaration filed, confess judgment or judgments against and in favor of the said THE FEDERAL TITLE AND TRUST COMPANY OF BEAVER FALLS, PA. its successors and assigns, as of any term for the above penalty together with costs of suit, attorney's commission of 5%, for collection, waiver of inquisition and condemnation of any property that may be levied upon by virtue of any execution, which may issue forthwith on failure to comply with the conditions hereof; and hereby waive all exemption laws now in force or hereafter passed and release all errors.

Witness' hand and seal the day of in the year of Our Lord, one thousand nine hundred and

The Condition of this Obligation is such, That if the above bounden

heirs, executors and administrators shall and do well and truly pay or cause to be paid unto the said THE FEDERAL TITLE AND TRUST COMPANY OF BEAVER FALLS, PA., its successors or assigns, the just sum of

Dollars,

together with interest thereon at the rate of % per annum, in instalments of not less than Dollars each, the first instalment to be paid month after the date hereof at the office of the said Trust Company,

until the whole of said principal debt or sum and interest be fully paid; and all premiums and charges for such insurance on the buildings upon the land described in the accompanying mortgage, as shall from time to time be demanded or taken out by the said obligee, its successors or assigns, to better secure the said debt and interest, and also all taxes and municipal claims against said land as soon as payable, penalties, and costs, which if paid by the obligee, its successors or assigns may be added to said real debt, and when requested exhibit to the Trust Company the evidence of payment of said taxes and claims, then this obligation to be void; otherwise to remain in full force and virtue.

But in case of default for 15 days in payment of any of the moneys hereby required to be paid or in exhibiting, when requested, the evidence of payment of taxes and claims as aforesaid, then the whole of said principal debt or sum as it then may be, and accrued interest thereon shall become due and payable, and execution may issue forthwith for the same together with all fees, costs and expenses of collection including an attorney's commission of 5%.

_____ SEAL

Attest:

_____ SEAL

_____ _____ SEAL

_____ _____ SEAL

Figure 145: The instalment bond reproduced here is successfully used in connection with the mortgage plan illustrated on the previous pages and doubtless can be adapted to many banks. It shows how readily this type of obligation can be set forth in a comprehensive way.

There is this difference between the mortgage loan described and the ordinary building and loan plan: The bank imposes no fines in the event the borrower fails to meet the monthly payments, but the debt becomes due within 15 days and a foreclosure action can then be commenced. Ordinarily under the building and loan practice, a foreclosure cannot be started until the default has continued over a period of six months. Under the mortgage instalment plan, no premium is charged and there is a reduction in the amount of interest monthly, with a corresponding increase in the amount credited to the principal. The borrower pays 6% on the actual amount of money still owing, instead of paying a stipulated amount of interest, and receiving in return dividends declared from time to time somewhat as on insurance premiums.

"This plan has enabled us to place considerable money at the usual rates of 6%," says this Pennsylvania banker. "Our money is well secured and at the same time we are assured of regular reductions on the loans. We adopted this method principally because we had many customers wanting to make partial payments on straight mortgages that would run from three to five years. Previously we charged these mortgages out of our banking department and set them over to our trust department. This caused much additional work in order to accommodate our customers, and it convinced us that we should have some form of mortgage that would carry partial payments without upsetting our records in the trust department. The plan we now use has minimized the work and solved our difficulties."

What we have just read suggests by actual example how the banker may cooperate profitably with the home builder and put idle money to good use, while at the same time reducing routine. Doubtless the plan can also be successfully adapted by other banks.

CHAPTER XVII

HOW SAVINGS ACCOUNTS CAN HELP

WHEN too large a proportion of its funds lies idle in a bank's vaults, the resulting loss in earnings often can be traced to lack of foresight and to a mistaken idea that proper attention to credits, and to the making of good loans for the immediate present, is all that is necessary. Overcautious attention to credits undoubtedly minimizes the losses on bad loans, but does not necessarily put all of the idle money to work profitably.

Take, for example, the country bank in which time deposits represent 60% of the total, and demand deposits 40%. It is apparent that its large proportion of savings funds needs to be wisely handled if it is to be turned over profitably.

In the ordinary small bank doing a general commercial business, it is not unusual to find that the savings funds represent 50% or more of the total deposits. The savings department, therefore, exerts a sharp influence on the lending capacity of the bank, and earnings will depend correspondingly upon the effectiveness with which it is administered.

This is accomplished in a number of ways. A middle western bank keeps all of the old savings account books of its depositors in a big vault reserved especially for the purpose. It has found that customers who have for some reason withdrawn their savings deposits, often return later to reopen their accounts. It was the practice formerly to make out a new signa-

ture card, on such occasions a new ledger card, and also issue a new pass book.

When a customer comes in now to open an account, he is first asked if he ever had an account before. If so, his old pass book is brought from the vault. The original signature card is attached to the pass book so that in replacing the account it is necessary only to reinstate the signature card in the live files and enter the new deposit in the old pass book.

Thus, the bank is able to accomplish several essential results without loss of time or unnecessary use of new stationery. By keeping the old books, it always has available an accurate line on the customer without asking many questions. The plan eliminates, too, the necessity of compelling the customer to go through the routine required in opening an entirely new account, thus improving the service, and, finally, cuts the cost of doing business and reduces the supply bills.

This plan, although comparatively insignificant in itself, is nevertheless of decided value and importance because probably no department of the bank needs economy of operation more than the savings department, owing to the large number of customers and the activity of the many small accounts. Of course, in large city banks, where many savings accounts may be more or less transient, it may not be practical to keep the pass books. However, the signature cards are permanently filed.

With the fruition of many successful plans and methods for developing new business, as described in the volume on advertising and service, it is essential for the bank which has a savings department to adopt methods to safeguard its needs and also provide short cuts for handling rapidly growing business. Just in this way does it make lending more profitable.

It is worth while noting here that in some states nearly all of the savings banks are mutual corporations

conducted solely for the benefit of depositors. It is necessary, therefore, that their business be carried on in the most economical manner. Any method which simplifies the accounting or minimizes labor, is of value. Investigation indicated that the card system, in its various forms, has been incorporated in the equipment of many enterprising banks with uniformly satisfactory results.

In describing the practical uses of card systems in savings bank accounting, it is interesting to note the advantages of having signatures, and other sources of identification, simply recorded. Banks require a new depositor to enter his signature, and to give certain information for future identification. These cards vary in make-up to suit each bank.

Previous to the introduction of its card system, this bank had two or three ponderous, unwieldy books. First, there was the signature book, in which each depositor was required to write his name. This contained, consecutively, the signatures of all depositors from the first on down. Then came the identity book, in which was recorded the information for the customer's identification; and last, the index, which contained in alphabetical order the full names of all depositors. In some banks the first two books were combined in one. In some, also the identifying information was first written on blank forms to be copied later into the book.

Thus, for each depositor, three or more distinct records were required. It was necessary that these volumes be placed within reach of the teller for immediate reference, though of course only a small percentage of the accounts thus represented were active.

Note how an eastern banker saves time and labor by using a card system. The three books are replaced by two neat cabinets which together require no more counter space than one book. One cabinet contains

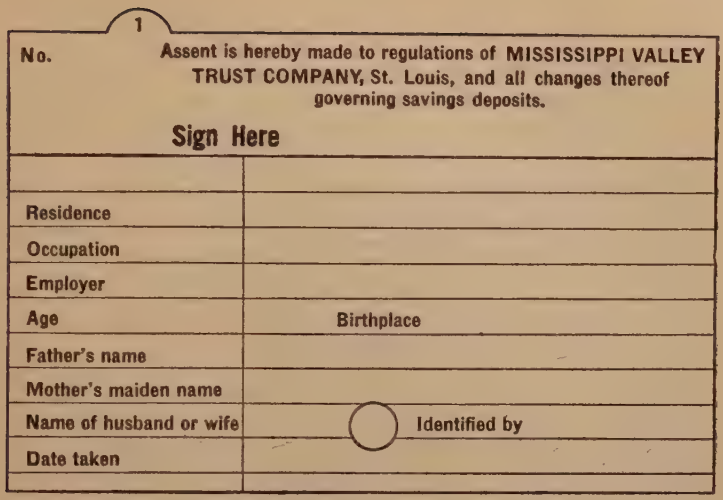
cards of "live" accounts only, like that shown in Figure 146. The illustration explains itself. The cards are arranged consecutively and combine the signature with the identification information. When an account is closed the card is filed away with the pass book.

The other cabinet contains the cards of joint accounts (Insert X), which are arranged alphabetically. Both cabinets are placed within easy reach of the teller's left hand and he can, even without so much as laying down his pen, turn quickly to the desired card with considerably less trouble than under the old system.

HOW ONE BANK KEEPS TAB ON THE TREND OF SAVINGS ACCOUNTS

After the signature and identification cards are made out, the account is entered on the ledger which consists of another set of cards (Insert X) alphabetically arranged in specially constructed racks to permit quick reference. These cards are 5 by 8 inches in size with regular ruling to show the date, the deposits, the withdrawals, and the balance. At the top of each card are placed small tabs, numbered in decimal lots, 1, 2, 3, 4, and so on, and behind each tenth card is placed a guide card, numbered to indicate these decimal divisions. Thus any account may be located at once by number or its absence from the files readily detected. This exact numerical index affords not only speed in posting, but ready access by the paying teller when he compares the pass book with the balance on the original ledger before allowing a withdrawal.

It will be noted that as accounts expand, new ledger cards may be inserted directly back of the original card, permitting entries indefinitely. The open accounts are filed in a cabinet of sufficient size to meet everyday needs. One or two drawers only are reserved and labeled "closed," and in these the ledger cards of every closed account are filed, thus eliminating from



No.	Assent is hereby made to regulations of MISSISSIPPI VALLEY TRUST COMPANY, St. Louis, and all changes thereof governing savings deposits.
	Sign Here
Residence	
Occupation	
Employer	
Age	Birthplace
Father's name	
Mother's maiden name	
Name of husband or wife	Identified by
Date taken	

Figure 146: Instead of having the customer sign a separate agreement to the bank's rules, the savings account signature card automatically shows this acceptance at the top, thus saving in routine.

December 1.

Interest on Savings Account
No._____

3%

June			6			
July			5			
Aug.			4			
Sept.			3			
Oct.			2			
Nov.			1			
		Credit				

Figure 147: So that there may be no doubt about the interest earned on deposits, one bank furnishes each customer a slip like this each half year to show month by month what amount of interest he is entitled to.

the files which are in actual use, every inactive or withdrawn account.

The journal consists of a 4 by 6-inch card. In the credit and debit columns of its perforated edge, entries are made from the customer's original deposit slips and vouchers. Footings at decimal intervals are extended proving summary. In checking the posting (which has also been made from the original deposit tickets and vouchers), the perforated edge is torn off and the entries transcribed from the ledger into the proper columns of the stub. Errors may then be located by the checking which this double entry system affords. The journal is arranged with numerical guide cards which are numbered as necessary to make the daily changes, and these are all filed under date guide cards. The journal is kept in a tray file, and is operated in conjunction with the ledger.

In this way, a general summary of the day's business can be kept, so that on each succeeding morning the cards may be sent to the cashier's desk for his guidance and then may be returned to the proper file, behind monthly guides. The check against the general summary is the listing of the paying teller's payments and cash receipts from customers, made on sheets by an adding machine.

Closed accounts are easily removed, the accounts index themselves, the posting is rapid, the accounts are kept together, trial balances are taken off more quickly, and there is less chance of error in using this system. Besides all this, it is capable of taking care of practically unlimited growth.

Investigation indicated that while this method is effective in a great many banks, looseleaf ledgers for tabulating practically the same data are also much in favor. The sheets which one bank uses for these ledgers (Insert X) are of stiffer quality than those used in some of the other departments where the

accounts do not change so frequently and where the business is naturally less active. But in adopting either the card or the looseleaf system, the banker needs to measure his own requirements, the number of accounts he carries, the withdrawals, the changes, and similar data. In many banks the ledgers are balanced on an average of eight times a year, while in some smaller banks, investigation indicated, this work is done only from four to six times a year.

The rate of interest allowed varies from 3% to 5% and therefore the method of calculating interest differs widely in mutual savings banks and savings banks of other types. The banks which pay 3% to 3½% are apparently in the majority. All withdrawals on customers' accounts are deducted from the balance on deposit at the beginning of the interest-bearing period, usually six months. The balance, computed on a monthly basis, draws interest for the time it is on deposit, and a statement of the interest earned during each period is made to the depositor on a form similar to Figure 147.

Since the savings banks appeal to all members of the family, their range is wide and it is essential to place before their depositors a definite and tangible knowledge of the rules and regulations. One bank accomplishes this effectively by giving to each depositor who opens an account a printed circular setting forth its requirements. Literature like this saves many needless questions, and helps also to reduce the annoyance and confusion that springs from ignorance of bank rules.

Much of the accounting in the savings department can be simplified by the use of special stationery. In many banks which maintain a commercial department also, the deposit tickets for the savings department are of one color and those for the commercial department are of another. An Indiana bank's savings checks are all printed showing various amounts, $1, $5, $10, and

so on, so that all a depositor has to do when he wants to withdraw some money is to sign one of them. The uniformity, as well as the plainness, of the printed figures, simplifies to a considerable degree the bank's work and saves time all around.

THIS PLAN SAVES THE BANK TIME AND EXPENSE AND AT THE SAME TIME SERVES CUSTOMERS PROMPTLY

To determine the amount of slips to print of each denomination, it was only necessary to tabulate the number of withdrawal slips for each amount for the previous quarter. A rack with six compartments, one for checks of each denomination, is kept on each clerk's desk. When a customer wishes to draw out, say $25, the clerk passes out a $25 check for him to sign. The printed forms, in the course of one day, save half an hour of each clerk's time and greatly expedite the work during the rush periods.

The "interest period" in the savings department often suggests six or eight weeks of "hard labor" twice a year. Many depositors withdraw their interest every six months so that as soon as the interest period begins, they proceed to line up at the teller's window.

An eastern savings bank has worked out a plan to simplify the work incidental to the "interest period" by paying out earnings in the form of a dividend. The depositors are required to register their pass books somewhat like registering stock certificates. Each book is temporarily retained by the bank and remittances for interest are sent to customers through the mail as rapidly as possible and without confusion. The work of the bank is thus handled under less stress.

In this way each depositor receives his check promptly and is relieved of a long wait at the teller's window. These checks can be deposited again if desired, or used for any other purpose.

The routine of the plan in detail follows:

1. The depositor gives the bank a permanent order revocable at his pleasure, like this:

CITY INSTITUTION FOR SAVING

Date.....

To the Treasurer:

Dear Sir: Until otherwise ordered, please mail me check for dividends as they become due on pass book No.....

(Sign here) .....

(Address).....

2. In return the bank gives the depositor a blank memorandum to file with his papers covering the order.

Date.....

My pass book of the....., Savings Bank, No.....is registered and is in the possession of the above bank.

The balance of my account at the time of registration was $.....

(Sign here) .....

3. All accounts which are to receive interest have to be registered by the fifteenth of the month preceding the interest period.

4. At a convenient time after the fifteenth of the month, interest can be credited and charged on pass books. Special checks then can be prepared for mailing to customers on the day preceding the beginning of the next interest period. These checks show plainly that they are for interest to a certain date on account of the specific numbers, and no letter need accompany the check. No acknowledgment is necessary, the indorsement of the customer being sufficient receipt.

5. The ledger datings, of course, are as of the first day of the interest periods, but the entries themselves can be made a few days in advance if it is thought desirable or necessary.

An example of the advantages of this plan is found in a Massachusetts bank with assets of $12,000,000

and 22,000 customers. It sends out in this manner every six months about 900 checks, 750 being of one amount. In order to simplify the operation of this plan, a special check book is made out each time. A little stamp is used which reads, "Standing order to mail dividends." This is stamped on the pass books of the depositors participating in the plan. The idea has developed more business.

To summarize, a savings department is valuable to a bank because its resources are always on hand should other withdrawals reduce the supply of funds. Largely for this reason, more time and thought are given to methods of securing profitable accounts.

As a matter of fact, too few bankers anticipate the probable balance resulting from small beginnings. However, progressive banks have worked out plans for handling funds to make them pay as indicated here. Deposits, of course, furnish little support until they grow "full size," but the manner in which they are supervised may determine their ultimate strength.

Unquestionably, once the right methods are applied to the handling of savings accounts, a bank should make progress along two distinct paths: that of increased lending capacity and that of increased volume. What more could we ask?

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